WESTCOAST TRANSMISSION COMPANY LIMITED

1984 NOTICE OF ANNUAL MEETING OF SHAREHOLDERS AND MANAGEMENT PROXY CIRCULAR

WESTCOAST TRANSMISSION COMPANY LIMITED

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

APRIL 25, 1984

TO THE SHAREHOLDERS OF
WESTCOAST TRANSMISSION COMPANY LIMITED

Take notice that the annual meeting of the shareholders of Westcoast Transmission Company Limited (the "Corporation") will be held in the Hotel Vancouver, Vancouver, British Columbia, on Wednesday, April 25, 1984, at the hour of 10 o'clock in the forenoon for the following purposes:

1. To receive and consider the report of the directors of the Corporation, the statement of accounts and the auditor's report.
2. To elect directors for the ensuing year.
3. To appoint an auditor for the ensuing year.
4. To transact such other business as may properly come before the meeting or any adjournment thereof.

Proxies to be used at the meeting must be deposited with the Corporation on or before 10:00 a.m. Tuesday, April 24, 1984.

The directors of the Corporation have previously fixed and advertised March 16, 1984 as the record date for the determination of shareholders entitled to receive this Notice.

Dated at Vancouver, British Columbia, this 16th day of March, 1984.

BY ORDER OF THE BOARD OF DIRECTORS

G. W. Lade
Vice President and Secretary

MANAGEMENT PROXY CIRCULAR

This Management Proxy Circular is furnished in connection with the solicitation of proxies on behalf of the Board of Directors of Westcoast Transmission Company Limited (the "Corporation") for use at the annual meeting of shareholders of the Corporation to be held at the date, place and time and for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders.

Except as otherwise stated, the information contained herein is given as of March 16, 1984. This Management Proxy Circular and the accompanying Form of Proxy are expected to be mailed to shareholders on or before March 23, 1984.

The mailing address of the Corporation's registered office is 1333 West Georgia Street, Vancouver, B.C. V6E 3K9.

VOTING AND VOTING RIGHTS

Voting Rights

As of the close of business on the record date, March 16, 1984, 40,731,498 issued and outstanding common shares of the Corporation were its only voting security. Each common share entitles the holder thereof to 1 vote. Cumulative voting is not provided for in the by-laws of the Corporation.

Appointment of Proxyholder

A shareholder entitled to vote at a meeting of shareholders may by means of a proxy appoint a proxyholder or one or more alternate proxyholders, who are not required to be shareholders, to attend and act at the meeting in the manner and to the extent authorized by the proxy and with the authority conferred by the proxy.

Right of Revocation

Any shareholder appointing a proxyholder to attend and vote at the annual meeting of shareholders of the Corporation may revoke such proxy in the following manner:

(a) by depositing an instrument in writing executed by such shareholder or by his attorney authorized in writing

  (i) at the registered office of the Corporation at any time up to and including the last business day preceding the day of the meeting, or an adjournment thereof, at which the proxy is to be used, or

  (ii) with the chairman of the meeting on the day of the meeting or an adjournment thereof; or

(b) in any other manner permitted by law.

Method of Solicitation of Proxies

Proxies will be solicited principally by mail. In addition to the use of the mails, proxies may be solicited by directors and officers of the Corporation by personal interview, telephone or telegraph. Banks, brokerage houses and other custodians, nominees or fiduciaries may forward the soliciting material to their principals and obtain authorizations for the execution of proxies and for so doing will be reimbursed by the Corporation for their out-of-pocket expenses incurred in connection therewith.

Cost of Solicitation of Proxies

The entire cost of the solicitation of proxies will be borne by the Corporation.

Quorum

Two shareholders or proxyholders present in person and holding in person or by proxy not less than a majority of the common shares entitled to be voted at a meeting constitute a quorum at a meeting of shareholders.

Vote Required

The resolutions to be presented at the meeting for the election of directors and the reappointment of the incumbent auditor are ordinary resolutions requiring the favourable vote of a majority of the common shares represented and voting in person or by proxy at the meeting.

Proxy Voting

Common shares represented by any effective proxy in the form provided given by any shareholder will be voted or withheld from voting in accordance with the instructions specified therein and, where no choice is specified, will be voted for the nominees for directors proposed by the Board of Directors and for the appointment of Clarkson Gordon as auditor. The Form of Proxy confers discretionary power in respect of amendments to matters identified in the notice of meeting or other matters that may properly come before the meeting. At the date of the notice of meeting, there are no variations or amendments to such matters or any other matters to come before the meeting known to the Board of Directors.

Principal Holders of Common Shares

Those persons who, as of March 16, 1984, beneficially owned[1] common shares of the Corporation carrying more than 5% of the votes attached to common shares of the Corporation, insofar as the directors and officers of the Corporation have knowledge thereof, are as follows:

Name and Address of Shareholder	*No. of Common Shares Beneficially Owned*[1]	*Percentage of Class*[2]
Petro-Canada Inc.[3] P.O. Box 2844 Calgary, Alberta T2P 3E3	12,728,245	31.2%
B.C. Resources Holdings Ltd.[4] 1176 West Georgia Street Vancouver, B.C. V6E 4B9	3,471,375	8.5%

(1) *As used in this Management Proxy Circular, "beneficially owned" means the sole or shared power to vote, or to direct the voting of, a security and/or the sole or shared investment power with respect to a security (i.e., the power to dispose of, or to direct the disposition of, a security). In addition, for purposes of this Management Proxy Circular, a person is deemed, as of any date, to have beneficial ownership of any security that such person has the right to acquire within 60 days of such date.*

(2) *Percentage of class is based on the number of common shares outstanding on March 16, 1984.*

(3) *Petro-Canada Inc. is a wholly-owned subsidiary of Petro-Canada.*

(4) *B.C. Resources Holdings Ltd. is a wholly-owned subsidiary of British Columbia Resources Investment Corporation.*

DIRECTORS

Election of Directors

Action is to be taken at the annual meeting to elect 11 directors of the Corporation. The directors elected at the meeting will serve for a term from the date of election until the next annual meeting and/or until their respective successors have been elected or appointed.

Nominees for Directors

The 11 persons listed below are nominees for election as directors of the Corporation. All of the nominees were previously elected by the shareholders of the Corporation. Although no nominee has advised that he will be unable to accept nomination or election, if one or more of the nominees referred to should be unable to accept nomination or election, the persons whose names are printed in the enclosed proxy intend to vote for the remaining nominees and such substitute nominees as may be designated by the Board of Directors.

The following table includes information which has been furnished by the nominees respecting certain equity securities beneficially owned as of March 16, 1984 by such nominees, their principal occupations, employment, business experience and certain other information. Unless otherwise indicated, each nominee has been engaged in his current principal occupation for at least the last five years.

As of March 16, 1984, officers and directors of the Corporation as a group beneficially owned 377,005 (1.0%) of the common shares of the Corporation. The common shares used in computing the percentage include the common shares actually outstanding on March 16, 1984, and the 108,000 common shares that such officers and directors had the right to acquire pursuant to share options within 60 days following such date. Each nominee's beneficial ownership represents less than ½ of 1% of the outstanding Corporation common shares.

Name, Age, Principal Occupation[1] *and Other Information*	*Beneficial Ownership of Common Shares*[1][2][3]
JOHN ANDERSON, 58, President and Chief Executive officer of the Corporation, Vice President and a Director of Saratoga, Chairman and a Director of PNG, Chairman and a Director of WPL, Vice President and a Director of Foothills Yukon, Vice President and a Director of Foothills NBC, a Director of Foothills Oil; a Director of the Corporation since 1970.	84,225[4]
JAMES S. BYRN, 59, Chairman of Gulf Group Canada Limited, an investment holding company, and was Chairman of Schenley Canada Inc. between October 1981 and March 1983, prior to which was President and Chief Executive Officer of Genstar Marine Limited and a predecessor company, a Director of Foothills Yukon; a Director of the Corporation since 1978.	300
DAVID L. HELLIWELL, 48, President of Marin Investments Ltd., an investment holding company, since November 1, 1981, prior to which was successively President and Chairman of British Columbia Resources Investment Corporation; a Director of the Corporation since 1979.	1,000
WILBERT H. HOPPER, 51, Chairman of the Corporation, Chairman and Chief Executive Officer of Petro-Canada, a Crown energy corporation; a Director of the Corporation since 1979.	—[5]
J. TAYLOR KENNEDY, 68, Retired Executive; a Director of the Corporation since 1973.	300

Name, Age, Principal Occupation[1] *and Other Information*	*Beneficial Ownership of Common Shares*[1][2][3]
EDWARD M. LAKUSTA, 53, President and Chief Operating Officer of Petro-Canada, a Crown energy corporation, since June 1982, prior to which was Senior Vice President, Manufacturing of Gulf Oil Company between January 1982 and June 1982, and for more than five years prior to January 1982 held various senior executive positions with Gulf Oil Company and its subsidiaries; a Director of the Corporation since 1982.	—[5]
DAVID P. O'BRIEN, 42, Senior Vice President, Finance and Planning of Petro-Canada, a Crown energy corporation, since 1982, prior to which was employed in various executive capacities with Petro-Canada; a Director of the Corporation since April 1983.	—[5]
DEREK H. PARKINSON, 58, Senior Vice President and Chief Financial Officer of the Corporation since February 1982, prior to which was employed in various executive capacities with MacMillan Bloedel Limited, a Director of WPL, a Director of Foothills Yukon; a Director of the Corporation since April 1983.	25,000[6]
EDWIN C. PHILLIPS, 66, Consultant, Vice Chairman and a Director of Foothills Yukon, Vice Chairman and a Director of Foothills NBC, President and Chief Executive Officer and a Director of Foothills Oil, a Director of British Columbia Resources Investment Corporation and a Director of Dynalectron Corporation; a Director of the Corporation since 1969.	66,731
ARTHUR H. WILLMS, 44, Senior Vice President of the Corporation since October 1981, prior to which was employed in various executive capacities with the Corporation, a Director of WPL, a Director of PNG; a Director of the Corporation since April 1983.	35,161[7]
CHARLES N. W. WOODWARD, 59, Chairman of the Board and Chief Executive Officer of Woodward Stores Limited, retail merchants, a Director of British Columbia Resources Investment Corporation; a Director of the Corporation since 1970.	200

(1) *As defined in the rules under the Securities Exchange Act of 1934 of the United States of America and for purposes of this Management Proxy Circular, the following corporations may be deemed to be "subsidiaries" of the Corporation: Foothills Pipe Lines (Yukon) Ltd. ("Foothills Yukon"), Foothills Pipe Lines (North B.C.) Ltd. ("Foothills NBC"), Foothills Oil Pipe Line Ltd. ("Foothills Oil"), Pacific Northern Gas Ltd. ("PNG"), Saratoga Processing Company Limited ("Saratoga") and Westcoast Petroleum Ltd. ("WPL"); and the following corporations, by virtue of their share ownership, may be deemed to be "parents" of the Corporation: Petro-Canada Inc. and Petro-Canada (see "Principal Holders of Common Shares"). In no case does the number of shares of an equity security of a subsidiary of the Corporation shown as "beneficially owned" by any person include the shares of such equity security beneficially owned by the Corporation, as to which shares such persons disclaim beneficial ownership. The Corporation owns 50% of the voting securities of Foothills Yukon and Foothills Oil, the other 50% of each of Foothills Yukon and Foothills Oil are owned by another company in which neither the Corporation nor any subsidiary or affiliate of the Corporation has an interest. Under agreement between the Corporation and such other company, the Corporation and such other company are entitled to equal representation on the board of directors of Foothills Yukon. The Corporation disclaims direct or indirect control of Foothills Yukon or Foothills Oil.*

(2) *Mr. Anderson owns 1,000 common shares of PNG and 1,000 shares of Saratoga. Mr. Phillips owns 1,000 common shares of PNG.*

(3) *Except as otherwise noted in the footnotes to the above table, the directors and officers have sole voting and investment power with respect to the shares shown as beneficially owned by them.*

(4) *Includes 36,000 common shares that Mr. Anderson has the right to acquire within 60 days following March 16, 1984 pursuant to the exercise of share options.*

(5) *Petro-Canada Inc., of which Messrs. Hopper, Lakusta and O'Brien are directors, beneficially owns 12,728,245 common shares, as to which Messrs. Hopper, Lakusta and O'Brien disclaim beneficial ownership.*

(6) *Includes 10,000 common shares that Mr. Parkinson has the right to acquire within 60 days following March 16, 1984 pursuant to the exercise of share options.*

(7) *Includes 4,000 common shares that Mr. Willms has the right to acquire within 60 days following March 16, 1984 pursuant to the exercise of share options.*

Remuneration of Directors and Officers (for Canadian purposes)

For the purposes of the Canada Business Corporations Act, the following table sets forth for the fiscal year ended December 31, 1983, the aggregate remuneration received from the Corporation and its subsidiaries by the directors and those officers of the Corporation receiving in excess of $40,000:

	Directors' Fees	*Salaries*	*Other*[1]	*Total Remuneration*
AS A GROUP:				
11 Directors				
The Corporation	$ 93,350	$ —	$ —	$ 93,350
Westcoast Petroleum Ltd. (4 Directors)	19,610	—	—	19,610
Pacific Northern Gas Ltd. (2 Directors)	7,600	—	—	7,600
Saratoga Processing Company Limited (1 Director)	4,600	—	—	4,600
	$125,160	$ —	$ —	$ 125,160
AS A GROUP:				
14 Officers				
The Corporation	$ —	$1,496,121	$ 62,526	$1,558,647
Westcoast Petroleum Ltd. (1 Officer)	6,300	—	—	6,300
Pacific Northern Gas Ltd. (3 Officers)	—	—	—	—
Saratoga Processing Company Limited (5 Officers)	3,200	—	—	3,200
	$ 9,500	$1,496,121	$62,526	$1,568,147

(1) *Corporation contributions to Employee Savings Plan and the Corporation's Pension Plan.*

Executive Compensation (for U.S. Requirements)

For the purposes of the Securities Exchange Act of 1934 of the United States of America, the following table shows information with respect to all cash compensation received for services in all capacities to the Corporation and its subsidiaries, during the fiscal year ended December 31, 1983, by (i) each of the five most highly compensated executive officers of the Corporation and (ii) all executive officers of the Corporation as a group:

Individual or Group	*Position*	*Cash Compensation*[1]
John Anderson	President and Chief Executive Officer	$ 260,100
Alton J. Green	Vice President, Administration	126,643
Gordon W. Lade	Vice President, Secretary and General Counsel	115,772
Derek H. Parkinson	Senior Vice President and Chief Financial Officer	170,418
Arthur H. Willms	Senior Vice President	120,944
All executive officers (10) as a group		$1,286,474

(1) *During the fiscal year ended December 31, 1983, the executive officers of the Corporation did not receive any compensation, other than the cash compensation and compensation pursuant to Corporation plans shown in this Management Proxy Circular, which exceeded (i) with respect to any named individual, the lesser of $25,000 or 10% of his reported cash compensation or (ii) with respect to the group of 10 executive officers, the lesser of $250,000 or 10% of the total cash compensation reported for the group.*

Employee Savings Plan

The Corporation has an Employee Savings Plan available to all full-time employees of the Corporation. Participation in the plan is conditional upon one year's service with the Corporation. Under this plan, all eligible employees of the Corporation are entitled to a contribution by the Corporation up to a maximum of 5% of the participant's basic earnings. During the fiscal year ended December 31, 1983 the Corporation made contributions under the Employee Savings Plan as follows:

Individual or Group	*Contribution*
John Anderson	$11,250
Alton J. Green	6,332
Gordon W. Lade	4,105
Derek H. Parkinson	—
Arthur H. Willms	5,688
All executive officers (10) as a group	$41,556

Key Employee Stock Option Incentive Plans

On April 20, 1976, the shareholders approved the 1976 Key Employee Stock Option Incentive Plan (the "1976 Plan"), under which options were granted to selected key employees for the purpose of encouraging them to acquire a proprietary interest in the Corporation, to continue as employees of the Corporation and to increase their efforts on behalf of the Corporation. The 750,000 common shares (as adjusted for the 3-for-1 split on May 12, 1978) which were reserved under the 1976 Plan, have all been issued upon the exercise of options or are subject to options outstanding thereunder. On April 27, 1983, the shareholders approved the reservation of a further 500,000 common shares for issuance upon the exercise of options to be granted to key employees of the Corporation and its subsidiaries, including officers and such directors as are employees, under the 1983 Key Employee Stock Option Incentive Plan (the "1983 Plan"). The 1983 Plan is administered by the Compensation Committee of the Board of Directors, none of whose members are eligible to receive options under option plans of the Corporation. The terms of individual options are to be determined by the Compensation Committee, subject to the limitations set out in the 1983 Plan. The exercise price of an option granted under the 1983 Plan is to be the closing bid price of the common shares as determined by trading on the Toronto Stock Exchange on the date the option is granted. Options may be granted for a term not exceeding 10 years, and are non-transferable, other than by will or by applicable law of descent.

Both the 1976 Plan and the 1983 Plan authorized the Corporation to make interest-free loans to certain key employees to exercise stock options under those plans. As of March 16, 1984 no such loans have been granted under the 1983 Plan. Certain interest-free loans were granted under the 1976 Plan to executive officers, as well as to other officers and such directors as are full-time employees of the Corporation (see "Indebtedness of Directors and Senior Officers"). The non-cash compensation received by those directors and officers during the fiscal year ended December 31, 1983 in respect of those loans, which was calculated on the prevailing bank prime rate of interest during the currency of the loans in 1983, is set forth in the following table:

Individual or Group	*Non-Cash Compensation in Respect of Interest-Free Loans*
John Anderson	$ 41,382
Alton J. Green	31,037
Gordon W. Lade	31,037
Derek H. Parkinson	18,713
Arthur H. Willms	39,646
All executive officers (10) as a group	$213,627
All directors and officers (25) as a group	$285,008

The following table, for the fiscal year ended December 31, 1983 shows as to certain executive officers, as to all executive officers as a group and as to all directors and officers as a group, information as to (i) options to purchase Corporation common shares granted in that fiscal year, and (ii) the Corporation common shares acquired through the exercise of options in that fiscal year:

	Granted January 1, 1983 to December 31, 1983		*Exercised January 1, 1983 to December 31, 1983*	
Individual or Group	*No. of Shares*	*Average Option Price*	*No. of Shares*	*Net value realized (market price less exercise price)*
John Anderson	30,000	$15.00	15,000	$141,885
Alton J. Green	7,500	15.00	22,500	151,253
Gordon W. Lade	10,000	15.00	—	—
Derek H. Parkinson	35,000	14.68	—	—
Arthur H. Willms	20,000	15.00	—	—
All executive officers (10) as a group	162,500	$14.85	37,500	$293,138
All directors and officers (25) as a group	199,500	$14.80[1]	37,500	$293,138[2]

(1) *During the fiscal year ended December 31, 1983 options on Corporation common shares were granted to directors and officers on February 9, 1983 at a price of $14.25 per common share and on October 27, 1983 at a price of $15.00 per common share. All the options expire 10 years from the dates the options were granted.*

(2) *During the fiscal year ended December 31, 1983 Corporation common shares were acquired by directors and officers through the exercise of options at prices of $5.17, $6.46 and $7.88 per common share.*

The price range of the Corporation's common shares on the Toronto Stock Exchange during each of the calendar quarters of 1983 was as follows:

	High	*Low*		*High*	*Low*
1st quarter	15¼	13⅜	3rd quarter	15⅜	13¼
2nd quarter	15	13½	4th quarter	15¾	14⅞

Pension Plan

The Corporation has a defined benefit Pension Plan covering all eligible full-time employees. The cost of such Pension Plan is borne wholly by the Corporation. Each year the Corporation funds the current service cost of the Pension Plan and contributions vest in an employee after five years of membership. Membership in the Plan is conditional upon one year's service with the Corporation. Persons first employed at age 59 or over are ineligible for membership.

Benefits under the Pension Plan are based on 2.4% of an employee's salary for each year or part thereof of membership in the Plan. Under the Income Tax Act of Canada, however, the maximum annual benefit is limited to the lesser of $60,000 or $1,715 times the number of years of membership in the Plan.

The 1983 earnings for purposes of the Pension Plan of officers of the Corporation are substantially equivalent to the amounts set forth in the column "Cash Compensation" of the Executive Compensation table. The individuals named have the following years of accredited service as of December 31, 1983: John Anderson — 22; Alton J. Green — 22; Gordon W. Lade — 4; Derek H. Parkinson — 2; Arthur H. Willms — 12. These Pension Plan benefits are not subject to government social security plan deductions.

The estimated annual benefits upon retirement at normal retirement age under the Pension Plan are as follows:

Individual or Group	*Estimated Annual Retirement Benefits*
John Anderson(1)	$ 48,740
Alton J. Green	54,314
Gordon W. Lade	21,009
Derek H. Parkinson	14,727
Arthur H. Willms	56,595
All executive officers (10) as a group	$388,735

(1) *The Corporation has an agreement with John Anderson dated September 30, 1983, whereby following his retirement, if after age 62, the Corporation will pay him an annual retirement allowance which, when added to the amount he will receive from the Corporation's Pension Plan, will result in an aggregate amount equal to 70% of his annual salary in effect on the date of his retirement.*

During the fiscal year ended December 31, 1983, the Corporation made payments to Edwin C. Phillips, a director of the Corporation, in accordance with an agreement dated April 21, 1976, under which the Corporation commenced on November 1, 1982, to pay him an annual retirement allowance which, when added to the amount he receives from the Corporation's Pension Plan, results in an aggregate annual amount of $174,000, which is equal to 60% of his annual salary in effect on the date of his retirement.

Scale of Fees

The Corporation pays its directors an annual fee of $7,000 plus an allowance of $500 for attendance at each Board and Board Committee meeting. The chairmen of the standing committees of the Board are entitled to an additional fee of $100 per meeting and directors travelling to a meeting from outside the province in which a meeting is held are entitled to an additional per diem fee of $500. None of the foregoing emoluments is paid to those directors who are on the payroll of the Corporation.

Transactions with Directors

The Corporation entered into an agreement dated October 19, 1982 with Edwin C. Phillips, a director of the Corporation, under which Mr. Phillips has agreed to provide consulting services to the Corporation until April 19, 1984 at a fee of $100,000 per annum. Mr. Phillips retired as an employee of the Corporation effective October 19, 1982.

Termination of Employment

The Corporation has an agreement dated September 30, 1983 with John Anderson, the President and Chief Executive Officer of the Corporation, which provides that in the event his employment is terminated other than at his own request, Mr. Anderson will receive a lump sum severance payment equal to the lesser of (i) three times his then current annual salary or (ii) the amount which Mr. Anderson would have earned at his then current annual salary for the period from the date of such termination until the date on which he would attain the age of 62 years.

Indebtedness of Directors and Officers

The following directors and officers are indebted to the Corporation in respect of non-interest bearing loans for the purchase of common shares of the Corporation under the 1976 Key Employee Stock Option Incentive Plan.

Director or Officer and Municipality of Residence	*Largest Aggregate Amount of Indebtedness in 1983*	*Current Outstanding Amount of Indebtedness as of March 16, 1984*
John Anderson West Vancouver, B.C.	$376,620	$357,900
W.B. Caswell North Vancouver, B.C.	188,310	178,950
W.N. Collett North Vancouver, B.C.	188,310	178,950
A.J. Green West Vancouver, B.C.	282,465	268,425
J.A. Kavanagh North Vancouver, B.C.	283,572	268,596
G.W. Lade West Vancouver, B.C.	282,465	268,425
D.H. Parkinson Vancouver, B.C.	170,640	161,280
E.C. Phillips Vancouver, B.C.	564,930	—
J.H. Podmore Vancouver, B.C.	38,657	36,410
A.H. Willms North Vancouver, B.C.	360,882	342,786

Directors and Officers Liability Insurance

As contemplated by Section 119(4) of the Canada Business Corporations Act, the Corporation has purchased and paid the premium for insurance with a limit of $15,000,000 in each policy year in respect of potential claims against its directors and officers and in respect of loss for which the Corporation may be required or permitted by law to indemnify such directors and officers. The policy excludes from the coverage $1,000 in respect of each loss in respect of claims against each director and officer (limited in the aggregate to $5,000 in respect of any one loss) and $20,000 in respect of claims arising under the Corporation reimbursement portion of the policy. The Corporation was not aware at the time of purchase and is at the date hereof unaware of any actual or potential suit or claim which would result in a claim on the insurers. There is a flat premium payable in the sum of $35,980 for three years. It is not segregated as to groups.

Standing Committees of the Board of Directors

The directors have duly appointed the following standing committees:

An Executive Committee, comprised of Messrs. John Anderson as Chairman, Wilbert H. Hopper, David L. Helliwell, Derek H. Parkinson and Arthur H. Willms, which has and exercises all of the powers of the directors save and except those which by the provisions of the Canada Business Corporations Act cannot be delegated to a committee and those which are specifically prohibited or reserved by the directors to themselves.

An Audit Committee, comprised of Messrs. David L. Helliwell as Chairman, James S. Byrn and David P. O'Brien, which has and exercises the customary functions of such committees including the review of the Corporation's financial statements and methods of record keeping and the reporting of its findings to the Board of Directors.

A Compensation Committee, comprised of Messrs. James S. Byrn as Chairman, Wilbert H. Hopper and C.N.W. Woodward, which has and exercises the customary functions of such committees including the making of recommendations to the directors concerning the salaries and other compensation of the principal officers of the Corporation and the benefit programs of the Corporation, and the investigation, when deemed appropriate, of the general field of compensation for executive personnel.

The Corporation does not have a standing nominating committee or any committee of the Board of Directors performing similar functions.

Meetings of Directors and Standing Committees

During 1983, being the last fiscal year of the Corporation, the following meetings were held:

Board of Directors	4
Executive Committee	7
Audit Committee	4
Compensation Committee	5

All directors other than Mr. C.N.W. Woodward attended at least 75% of the aggregate meetings of the Board and the Committees of which they were members during the year.

TRANSACTIONS WITH SHAREHOLDERS

During the fiscal year ended December 31, 1983, the Corporation purchased certain supplies of natural gas in Alberta from Petro-Canada Inc. under long-term contracts. The aggregate dollar value of such purchases was $290,712. The gas purchase contracts vary in term from 20 years to the life of the leases from which gas is being produced and are similar as to price and other material terms and conditions to other gas contracts entered into by the Corporation with other producers of gas in Alberta. The Corporation believes that the terms of such transactions are no less favourable to the Corporation than those which could have been arranged with unrelated third parties.

During the fiscal year ended December 31, 1983, the Corporation also made payments to Petro-Canada Inc. in respect of the operation of the McMahon Gas Processing Plant. The aggregate dollar value of such payments was $5,283,000. Under the plant operating agreement, which has a primary term ending on March 31, 1985, the Corporation pays Petro-Canada Inc. the direct costs and allocated indirect costs of operating the gas plant, plus an operating fee equal to 12% of the direct and indirect costs of operating the plant. The Corporation believes that the terms of this transaction are no less favourable to the Corporation than those which could have been arranged with unrelated third parties.

AUDIT MATTERS

Auditor

Action is to be taken at the meeting with respect to the appointment of Clarkson Gordon, Chartered Accountants, Vancouver, British Columbia, as auditor for the Corporation for the ensuing year. Clarkson Gordon, first appointed in October, 1956, and acting since that time, does not, directly or indirectly, own any shares of, nor has it any financial interest, direct or indirect, in the Corporation or any of its subsidiaries, nor has it had any connection with the Corporation or any of its subsidiaries during the past two years other than as independent auditor and accountant for the Corporation. No officer, director or associate of the Corporation has any interest in Clarkson Gordon.

Representatives of Clarkson Gordon have in the past been present at annual general meetings of the shareholders and are expected to be present at the annual general meeting on April 25, 1984. They will have the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions raised at the meeting.

SHAREHOLDER PROPOSALS FOR 1985 ANNUAL MEETING

Shareholder proposals to be considered at the 1985 annual meeting must be received by the Corporation by January 25, 1985 to be included in the proxy materials for such annual meeting.

FORM 10-K

The Corporation is prepared to provide without charge to owners of record of shares of the Corporation, upon written request, a copy of the Corporation's annual report on form 10-K, including the financial statements and schedules thereto, filed with the Securities and Exchange Commission, Washington, D.C. Written requests should be directed to the Secretary of the Corporation, 1333 West Georgia Street, Vancouver, B.C. V6E 3K9.

APPROVAL

The contents and the sending of this Management Proxy Circular were approved by the directors of the Corporation on February 8, 1984.

G.W. Lade
Vice President and Secretary

March 16, 1984

LITHO'D IN CANADA
AGENCY PRESS

Westcoast Transmission Company Limited

Annual Report 1984

". . . the Company will continue to pursue investment opportunities beyond the scope of its traditional utility business."

Contents

The Company

Westcoast Transmission gathers, processes and transports natural gas for industrial, commercial and residential markets in British Columbia and the western United States, and is engaged in the distribution of natural gas in west-central British Columbia. It also explores for, develops and produces natural gas and oil in Canada and the United States and derives income from its interest in the Canadian segment of the Alaska Highway Natural Gas Pipeline Project.

Information

This report has been prepared for our shareholders, securities regulatory agencies and stock exchanges.

Requests for additional copies of this Annual Report or for further information should be directed to the Secretary of the Company.

Westcoast Transmission Company Limited
1333 West Georgia Street
Vancouver, British Columbia
Canada V6E 3K9

Annual Meeting

The Annual Meeting of the Shareholders of Westcoast Transmission Company Limited will be held in the British Room of the Hotel Vancouver, Vancouver, British Columbia, on Friday, May 10, 1985 at 10 a.m. (Local Time).

HIGHLIGHTS

	1984	1983	1982
Financial ($000)			
Total operating revenues	**$ 1,147,807**	$ 1,127,105	$ 1,156,951
Net income including extraordinary item	**60,376**	48,444	70,047
Net income applicable to common shares:			
Including extraordinary item	**57,278**	45,302	66,905
Before extraordinary item	**57,278**	61,947	66,905
Per common share:			
Including extraordinary item	**1.41**	1.11	1.65
Before extraordinary item	**1.41**	1.52	1.65
Cash flow from operations	**165,167**	158,360	183,268
Total assets	**1,751,781**	1,719,052	1,707,913
Capitalization:			
Long term debt	**707,677**	732,421	701,618
Preferred shareholders' equity	**34,210**	36,966	36,966
Common shareholders' equity	**486,289**	472,196	470,182
	1,228,176	1,241,583	1,208,766
Common shareholders' equity per share	**$11.94**	$11.59	$11.56
Return on average common shareholders' equity*	**12.0%**	13.1%	14.6%
Statistical			
Mainline Operations:			
Total gas sales (10^3m^3)	**7 233 907**	6 782 851	7 057 348
Average daily sales (10^3m^3)	**19 765**	18 583	19 335
Peak day sales (10^3m^3)	**42 941**	43 481	40 696
Oil and Gas:			
Property acquisition, exploration and development costs before incentives ($000)	**$72,776**	$48,552	$50,043
Production:			
Crude oil and liquids (Mbbls)	**1,487**	1,180	1,112
Natural gas (Bcf)	**11**	9	12
Proved reserves at year end:			
Crude oil and liquids (Mbbls)	**11,893**	10,520	10,490
Natural gas (Bcf)	**396**	397	390
Common shares:			
Shares outstanding at year end (000)	**40,741**	40,731	40,690
Toronto Stock Exchange price ranges — high	**$15⅝**	$15¾	$15½
— low	**$13**	$13¼	$11¾
Number of common shareholders	**9,905**	11,745	12,581
Employees:			
Westcoast — employee person years	**844**	833	870
Consolidated — employees at year end	**1,082**	1,037	1,057

* Before 1983 extraordinary item

President's Report to Shareholders

The financial statements and commentaries found elsewhere in this Annual Report present the 1984 financial results of Westcoast and its subsidiaries in some detail. In brief, however, the consolidated net income of the Company for 1984 amounted to $60.4 million which represented $1.41 available for each common share outstanding. These figures reflect a moderate decline from the 1983 results of $65.1 million and $1.52 per common share. The latter results are prior to the provision of $16.7 million made last year with respect to the Company's investment in the Alaska Highway Natural Gas Pipeline Project. The decline year over year is attributable to a smaller rate base from which Westcoast's utility system earnings are derived and a higher incidence of tax on Westcoast Petroleum's oil and gas operations.

Although the tempo of construction operations relating to Westcoast's utility system remained at a relatively low level in 1984, the year was, nevertheless, one of intense activity for the Company in other respects.

Many potential projects and acquisition prospects were vigorously pursued or explored. In addition, with the help of significant changes in Canadian Government regulations affecting the sales and pricing of natural gas, the Company's gas marketing division is seeking every opportunity to develop new gas sales.

Significant changes have occurred in the U.S. natural gas market as a result of the deregulation of many aspects of the industry, and changes will also occur in the marketing of gas within British Columbia as a result of policies which the provincial government is implementing. The Company anticipates that in the export market, which for the past number of years has been characterized by decreasing sales, increased exports of gas will result from the relaxing of the federal government controls on export pricing. We also believe that the surplus of natural gas which exists at present in the U.S. will generally disappear by 1987 and further opportunities for exporting Canadian gas will arise during the period thereafter. On the domestic scene, the changes introduced by the British Columbia Government will increase greatly the number of commercial transactions that will take place between buyers and sellers of natural gas. As a result, the Company expects that in addition to purchasing and re-selling gas transported through its system, it will enter into a variety of service contracts with third parties to gather, process and transport their natural gas. Any impact of these changes, both in the export and domestic markets, will be long range but as restrictions are lifted, more aggressive marketing will increase overall utilization of natural gas and, thus, increase the use of Westcoast's utility facilities.

Some of the projects and prospects examined or pursued during the year fell by the wayside and others may do so yet. However, substantial progress was made in 1984 and has since continued in reaching the objectives of maximizing the use of the Company's gas pipeline system, expanding our existing oil and gas operations, and seeking out rewarding new investments in oil and gas and other energy-related fields.

A particularly noteworthy event which has taken place since year-end had its genesis in 1984 when discussions with The Seagram Company Ltd. commenced with a view to Westcoast acquiring the Canadian oil and gas assets of that corporation. These discussions culminated on February 27, 1985 when agreement in principle was reached whereunder Westcoast will purchase those assets (held primarily by Texas Pacific Oil Canada Ltd. — a Seagram subsidiary) for $121.5 million. The assets comprise both producing oil and gas reserves and drilling rights covering a significant acreage. The oil and gas production and exploration lands will fit very well with the activities of our oil and gas subsidiary, Westcoast Petroleum, and will add 50 percent to its present daily oil production.

In 1984, Westcoast Petroleum itself implemented a dynamic exploration and development program with encouraging results. Total capital expenditures amounted to $73 million, an increase of $24 million over 1983. Of that sum, $36 million represents Westcoast's participation in 55 exploratory wells which were drilled in 1984 in different geographical areas which stretched from the Beaufort to the Mediterranean Sea. However, improvement in our subsidiary's oil and gas production capability will only have a significantly beneficial effect on Westcoast's net income if the current harsh tax and royalty regime applicable to oil and gas production revenues is moderated. Fortunately, there are indications that both the federal and provincial governments are aware that an overly heavy weight of taxation on the oil and gas industry is counter-productive to the long-range interests of the country and it may well be that some amelioration of the tax impact will be seen in 1985.

One disappointment that occurred in 1984 was the choice by the British Columbia Utilities Commission and the Government of British Columbia of the southern route for a pipeline to Vancouver Island, as proposed by British Columbia Hydro and Power Authority rather than Westcoast's northern route. Part of Westcoast's proposal related to the construction by a consortium comprising Westcoast, Union Oil Company of California (Union Chemicals Division), and Chieftain Development Co. Ltd., of a world-scale nitrogen fertilizer plant at Powell River, close by the pipeline route suggested by Westcoast. The route proposed by B.C. Hydro is quite different and, hence, it is no longer feasible to locate the plant at Powell River. However, active discussions have been held and are continuing to take place with the federal government and the British Columbia Government in order to select an alternate site for the plant. At this time, I am optimistic that these discussions can be completed successfully and that a plant employing in excess of 200 persons will yet materialize in British Columbia.

Serious consideration continues to be given to the concept of constructing a liquefaction plant in British Columbia for the purpose of exporting liquefied natural gas to Japan. However, a number of key factors must be agreed upon in order to render the project economic from the points of view of both buyer and seller and to this end the sponsors (one of whom is Westcoast) are continuing to negotiate a product pricing structure with Japanese utility companies. Regulatory approval by the National Energy Board is also required before this project can proceed.

Further details of these activities and others are set out in the pages which follow. In summary, however, 1984 was an important year for Westcoast in that some excellent foundations were prepared for future progress and the other Directors and I would like to thank all the employees of the Westcoast group of companies for their hard work and dedication in achieving this.

We intend to build on these foundations in 1985. The agreement in principle relating to the acquisition of Texas Pacific represents just a first step and the Company will continue to pursue investment opportunities beyond the scope of its traditional utility business. The current uncertainty relating to markets for oil and gas dictates a conservative approach to investing in this field. By the same token, this uncertainty creates opportunities for a company which is aggressively seeking to move forward. We are prepared to take a long-term view of the markets in our chosen areas of endeavour.

In order to facilitate the search for appropriate new investments, and to assist the Company to take every initiative under the new market oriented gas pricing policies, a number of changes were made in senior management responsibilities in 1984. The Process, Operations and Engineering Divisions which formerly reported directly to me now report to Arthur H. Willms, Senior Vice President, along with newly appointed Vice President of Marketing and Regulatory Affairs, Ronald B. Maas.

I would like to acknowledge the thirteen years of service as a Director of J. Taylor Kennedy who will be retiring from the Board this May. His valued contribution as a Director of Westcoast Transmission will be missed.

John Anderson

John Anderson
President and Chief Executive Officer

Vancouver, British Columbia, Canada
March 28, 1985

Operations Review

- New Government Gas Pricing and Marketing Policies Enhance Market Opportunities
- Natural Gas Liquids Recovery Project Underway
- Significant Acquisition of Oil and Gas Assets
- Sharp Increase in Crude Oil and Natural Gas Production
- Record Oil and Gas Exploration Program

Westcoast's meter station at Huntingdon, British Columbia, controls the flow of natural gas to the Company's export customer, Northwest Pipeline Corporation at Sumas, Washington for delivery to industrial, commercial and residential customers in Washington, Oregon, Idaho, Nevada and California.

Gas Transportation and Marketing

"One of the Company's objectives is to maximize the use of its gas pipeline systems."

The federal government agreed to adopt a market-sensitive gas export pricing policy in 1984. After a prolonged period of effort by Westcoast and other members of the Canadian oil and gas industry, the federal government was convinced of the necessity to allow the export price of Canadian natural gas to fall to levels more competitive with the price of alternate fuels. The policy announced in July permitted Canadian exporters to reduce the export price from the then prevailing basic level of U.S.$4.40 per MMBtu to as low as U.S.$3.15 per MMBtu if necessary.

In consequence of the new policy, it is expected that Westcoast will export greater volumes in 1985. The Company negotiated a new agreement with its export customer Northwest Pipeline Corporation for the 1984/85 contract year. This agreement, which has received final Canadian regulatory approval, provides for prices which will be responsive to market conditions in the Pacific Northwest of the United States. In return, Westcoast is guaranteed a minimum 42.5 percent share of Northwest Pipeline's total existing market and a 75 percent share of any growth in that market.

Totally new markets may open up as a result of the new pricing policy. Because Canadian gas can now be sold at or close to competitive levels, Westcoast and other companies are pursuing new opportunities to market Canadian gas in the United States. Efforts in this regard will be continued vigorously in 1985 and Westcoast is optimistic that its exports in 1985 will exceed those in 1984.

In addition to new federal policies, 1984 was marked by an important development relating to the marketing of natural gas in British Columbia. A report issued on July 9, 1984 by the British Columbia Government contained several decisions which will have an important impact on Westcoast's utility operations. Pursuant to conclusions contained in the report, natural gas producers will be able to enter into direct sales with Westcoast or any other buyer at the government-set wholesale price. Discount sales of British Columbia gas will also be permitted to petrochemical plants, fertilizer plants, liquefied natural gas plants and export pipeline customers. These decisions, are expected to have a positive effect on the Company and the British Columbia natural gas industry.

Mainline compressor stations located approximately 50 miles apart, maintain pipeline pressure for movement of natural gas to domestic and export customers.

A moderate increase in gas sales was experienced in 1984. Westcoast's total mainline gas sales revenue in 1984 amounted to $882 million on sales of 7 234 million cubic metres, an increase of $54 million or 451 million cubic metres over the 1983 level. Increased sales were primarily the result of short term incentive-priced sales in the Pacific Northwest export market and greater volumes sold to Pacific Northern Gas Ltd. for resale to the domestic petrochemical industry. Additional sales resulted from cooler weather in both the domestic and export markets during the early months of the year.

Two domestic wholesale price increases were put into effect in 1984. Effective February 1, 1984 and August 1, 1984, Westcoast's contracts with domestic distributors were amended to reflect price increases which were announced by the British Columbia Ministry of Energy, Mines and Petroleum Resources. Additional revenues resulting from these increases accrued to the British Columbia Petroleum Corporation.

	Average Wholesale Price per 10^3m^3	
	Effective February 1, 1984	Effective August 1, 1984
B.C. Hydro and Power Authority	$98.13	$101.31
Inland Natural Gas Company Ltd.	83.66	86.84
Pacific Northern Gas Ltd.	81.54	84.72

Substantial gas reserves are available to support the pipeline system. Proven remaining gas reserves at the end of 1984 in the Company's supply area together with dedicated volumes from outside the supply area amounted to 256 billion cubic metres which at the level of today's production amounts to 39 years of reserve life.

Westcoast Vice Presidents: seated left to right, J. E. Johnson, Operations; A. H. Willms, Senior Vice President; W. B. Caswell, Process; standing left to right, M. E. J. Phelps, Strategic Planning and J. A. Kavanagh, Engineering.

Capital expenditures on Westcoast's pipeline system totalled $39 million in 1984. The largest single project involved the relocation and upgrade of 5.2 kilometres of pipeline in the mountainous terrain area of the Coquihalla Pass. This project which has continued into 1985, was necessitated by the construction of a new provincial highway from Hope to Merritt. In addition to the completion of this relocation work, other pipeline upgrading will be required in 1985 as a result of a gradual population encroachment on the Company's pipeline right-of-way in a number of locations. These construction activities and routine repair and replacement expenditures of a capital nature are expected to aggregate in excess of $70 million in 1985.

Through its investment in Foothills Pipe Lines (Yukon) Ltd., the Company participates in the operation of another major gas transmission pipeline. Natural gas deliveries by Foothills to midwestern and western United States markets amounted to 4998 million cubic metres in 1984 as compared to 4851 million cubic metres in 1983. As is the case with Westcoast, the new federal government market based gas export pricing policy is expected to improve Foothills' throughput. It is anticipated that exports through the Foothills system will total 7949 million cubic metres in 1985.

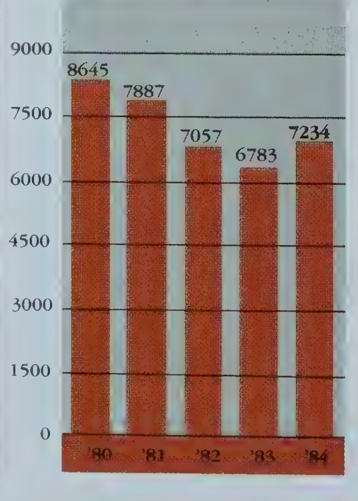
In February 1985, Foothills filed a facilities application with the National Energy Board to construct 189 kilometres of pipeline with additional compression facilities in Alberta and Saskatchewan to handle additional gas exports to the U.S. midwest. The total cost of these facilities is estimated at $319 million. The project in Canada and the United States is known as the "CAN-AM Project" and is designed to start delivering up to 28 million cubic metres per day to the U.S. northeast and 14 million cubic metres per day to the U.S. midwest on November 1, 1987. The National Energy Board application is expected to be heard in 1985 in conjunction with a competing proposal by TransCanada Pipelines Ltd.

In addition to mainline transmission operations, Westcoast has an investment in gas distribution activities. The Company's partially-owned subsidiary, Pacific Northern Gas Ltd. distributes natural gas in west-central British Columbia to communities and industries along its transmission system from a point near Summit Lake to Kitimat and Prince Rupert. Westcoast owns 45 percent of the common shares of Pacific Northern Gas, including all the voting shares.

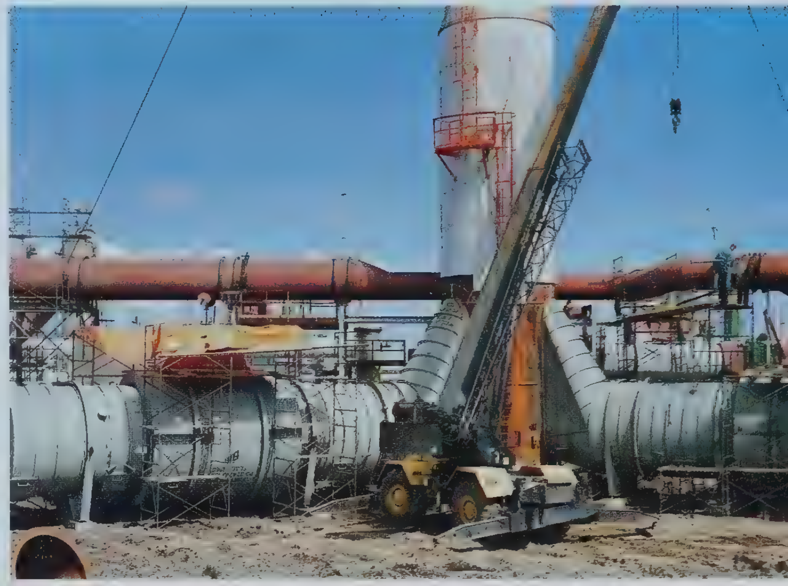
Total sales revenue of Pacific Northern Gas increased to $90 million from $77 million and sales volumes increased to 697 million cubic metres from 603 million cubic metres in 1983. Volumes delivered to Ocelot Industries Ltd.'s methanol plant at Kitimat, B.C. were 30 percent higher than in 1983. Sales to the pulp and paper industry were 6 percent below 1983 levels, due primarily to a forest industry labour dispute in the first quarter of 1984.

Pacific Northern Gas has an application before the British Columbia Utilities Commission to construct the 'on-island' laterals and distribution system for natural gas to Vancouver Island residential, commercial and industrial users as and when a natural gas pipeline is constructed to Vancouver Island.

Annual Mainline Sales Volume
Millions of cubic metres



Westcoast's principal gas processing and sulphur extraction plants are located in British Columbia but a smaller scale operation is conducted near Coleman, Alberta. The plant at that location is owned by Saratoga Processing Company Limited, 25 percent of the common shares of which are held by Westcoast, including all the voting shares. This operation has a capacity to treat approximately 1.4 million cubic metres of raw natural gas per day and it processes the gas on a fee basis for producers in the area.



Shown are two new thermal oxidizers installed at the Fort Nelson Gas Plant in the summer of 1984 to ensure compliance with environmental regulations.

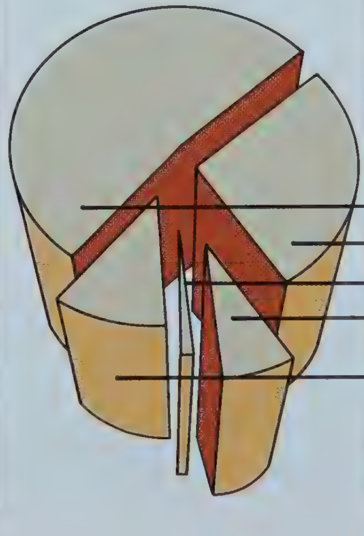
Energy Development

"Another objective is to seek out beneficial investments in energy-related fields."

The Natural Gas Liquids Recovery Project commenced construction in July 1984. The $63 million complex is being built at Taylor in northeastern British Columbia. In a joint venture with Petro-Canada Inc., Westcoast will operate the plant and Petro-Canada will handle product distribution and marketing throughout British Columbia and the northwest United States.

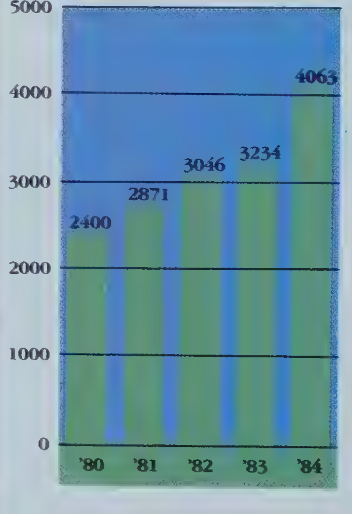
The facilities, which will include an extraction plant to recover liquids from the natural gas stream and a fractionation plant to separate the liquids, have the capacity to process up to 10.6 million cubic metres of natural gas per day and recover 6,800 barrels of propane, butane and pentanes-plus per day. Construction was approximately 20 percent complete at year-end and is on time and within budget. Operations are scheduled to commence in November 1985 and will provide a helpful stimulus to the economy of northern British Columbia.

Together with Union Oil Company of California (Union Chemicals Division) and Chieftain Development Co. Ltd., Westcoast is seeking approval to construct a world-scale nitrogen fertilizer plant in British Columbia. Although price fluctuations cause cyclical changes in the economics of fertilizer plant operations, the increasing food requirements resulting from world population growth give rise to expectations of a substantial and steady increase in demand for nitrogen fertilizer over a long period of years. This factor, together with the assurance received from the British Columbia Government of long-term availability of natural gas feedstock for a fertilizer plant underlie the desire of the consortium to proceed rapidly to obtain the approval necessary to construct the project and to complete the final evaluation of the project feasibility. Provided a satisfactory plant location and reasonable cost structure can be established, the consortium believes that a project should result which will prove to be of substantial benefit to the sponsors and to the economy of British Columbia.

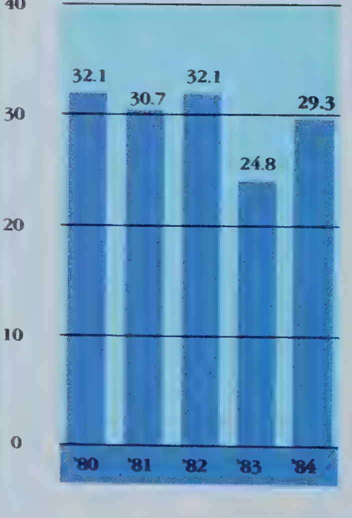


Shown is the site of the natural gas liquids recovery plant now under construction at Taylor, near Fort St. John. In the foreground are Westcoast's gas treating and sulphur recovery facilities.

Crude Oil & Liquids Production
Barrels/Day



Natural Gas Production
Millions of cubic feet/day



A major Liquefied Natural Gas Project continues to be evaluated by Westcoast. Major changes were made in 1984 in the proposal to liquefy natural gas from British Columbia and Alberta for export to Japan. The project, formerly called Western LNG, underwent a change of name and sponsorship. Now known as Canada LNG Corporation, the present project sponsors are Union Oil Company of Canada Ltd., Nissho Iwai Corporation, Suncor Inc. Resources Group, NIC Resources Inc. and Westcoast.

In December 1984, the Alberta Government issued a removal certificate for Alberta natural gas which will provide approximately 50 percent of the project's required feedstock. The British Columbia Government had previously authorized the removal of the balance of the gas required for the project. In order to meet the project's requirements it will be necessary for Westcoast to expand its gathering, processing and transmission facilities.

Of longer-term potential, a coal-slurry pipeline concept continues to be examined by Westcoast in conjunction with Chieftain Development Co. Ltd. and the Government of Alberta. The concept involves shipping by pipeline pulverized coal suspended in a suitable liquid, e.g., methanol, water or a mixture of the two. Evaluation of this project will require a considerable length of time but if it is ultimately determined to be physically and financially feasible, a slurry pipeline would be constructed from Alberta to a point on the Pacific Coast from which the slurry would be shipped to Japan and other offshore countries.

Oil and Gas

"A third corporate objective is to expand existing oil and gas operations and make new investments in the oil and gas field"

Westcoast increased its investment in oil and gas assets in February 1985. An extended and extensive search for new investment in the oil and gas industry was conducted by Westcoast throughout 1984. The search centered primarily but not exclusively on Alberta based operations with a preference for oil production and exploration acreage. Dominating Westcoast's review of numerous prospects was its intention to pay a fair value but not in excess of a fair value for oil and gas assets being offered.

Discussions which began in 1984 culminated on February 27, 1985 in an agreement in principle to purchase Texas Pacific Oil Canada Ltd. from The Seagram Company Ltd. for $121.5 million. This acquisition represents a very satisfactory step towards the goal announced at the 1983 Annual Meeting of Westcoast's shareholders of building the Company's non-utility activities to a size which in a few years may equal or exceed the utility side of its business.

The acquisition of Texas Pacific will expand Westcoast's oil and gas properties by approximately 202 thousand net acres in Alberta and 8 thousand net acres in British Columbia. Production of hydrocarbon liquids is expected to be increased by approximately 2,400 barrels per day and natural gas by approximately 10.8 million cubic feet per day.

Westcoast Petroleum Ltd., the Company's wholly owned oil and gas subsidiary, made encouraging progress in 1984. Westcoast Petroleum's principal activity is exploring for and producing crude oil and natural gas, primarily in western Canada. Its expenditure on exploration and development totalled $73 million in 1984 — a record level for the company — compared with $49 million in 1983.

Of more importance than the dollar level of expenditure, the 1984 capital program achieved significant successes. Oil production increased through the year and, when fully evaluated, it is expected that reserve additions from the 1984 program will more than replace the year's production. Specifically, new discoveries and development in the Progress, Crystal and Grand Forks areas of Alberta permitted oil production to reach a peak of 4,726 barrels per day in December and to average 4,063 barrels per day through the year. That figure compares with 3,234 barrels per day through 1983. Further significant increases in oil production are anticipated in 1985. A water injection secondary recovery operation which is being implemented in the Crystal field accounts for a substantial proportion of the increases in production and reserves but other smaller discovery and development wells represent, in the aggregate, important improvements in Westcoast Petroleum's position.

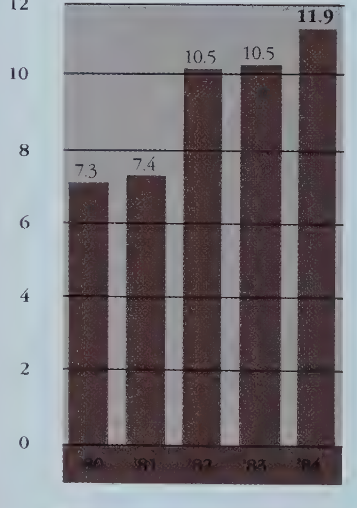
Westcoast Petroleum's gas sales increased in 1984. Gas sales in 1984 averaged 29.3 million cubic feet per day, 18 percent higher than 1983 but were still below the production capacity of 50 million cubic feet per day.

This pump jack is attached to one of 45 producing wells in the Crystal oil field, southwest of Edmonton.

Executive staff of Westcoast Petroleum Ltd: left to right, R. C. Browning, Vice President, Finance and Corporate Secretary; J. H. Geddes, President and Chief Executive Officer; T. W. Wittingham, Vice President, Exploration; A. J. Kostyniuk, Vice President, Production.

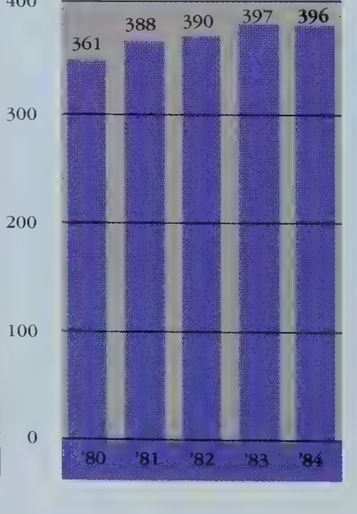
Crude Oil & Liquids Proven Reserves

Before Deduction of Royalties
Millions of barrels



Natural Gas Proven Reserves

Before Deduction of Royalties
Billions of cubic feet



The Manatokan heavy oil project located in Alberta in which Westcoast Petroleum has a 10% net profit interest reached a major milestone with completion of a five well steam flood pilot program. Under a farmout from Westcoast Petroleum, Canadian Occidental Petroleum, the field operator, will now undertake at its sole cost an expanded pilot program involving the drilling of thirty-two wells at an estimated cost of $23 million. Westcoast Petroleum can elect to increase its interest to a 50% working interest at the end of this second pilot program. This project could lead to a large-scale commercial project in the early 1990's.

Westcoast Petroleum's 1984 exploration program continued to concentrate on oil prospective plays and was widespread geographically.

Alberta:

- The Company concentrated its oil exploration efforts in this Province and encouraging results were obtained. Oil discoveries in which it had significant interests were made at Dizzy Creek, Progress and Ronalane. In addition, Westcoast Petroleum participated in successful drilling in the Peace River Arch at Loon and at Sawn Lake.
- Although exploration for gas received second priority, significant gas discoveries were made at Clear Hills and at Pembina.

British Columbia:

- In northeastern British Columbia, Westcoast Petroleum has interests in gas wells drilled at Wargen, Bougie and Tupper, and has also acquired significant land interests in the vicinity of the Desan Mississippian oil play.

Saskatchewan:

- The Company commenced an active exploration program in the southeast Saskatchewan oil play by acquiring an interest in some 29 thousand acres.

Canadian Frontier:

- In order to have the opportunity of gaining an interest in potentially large discoveries, Westcoast Petroleum participated in major exploration programs in the Beaufort, Mackenzie Valley and offshore East Coast areas. Recent results from the Esso/PCI/Home et al Nitperk L-19 well in the Beaufort Sea, in which the Company has a 2.57% interest, have been encouraging.
- Westcoast Petroleum arranged a major farm-in with Petro-Canada in the Northwest Territories. The Company will earn a 25% interest in 14 million acres. This very large program of geophysical and exploratory drilling activity will cost the Company slightly in excess of $50 million before receiving payments under the federal government's Petroleum Incentive Program.

United States:

- In the United States, Westcoast Petroleum participated through a 25% interest in the drilling of thirteen wells in the Palisades area of southwestern Nebraska. This program resulted in ten oil wells and three abandonments.

Sicily:

- Westcoast Petroleum reached agreement with London and Scottish Marine Oil to pay 25% of the cost of an 11 thousand foot offshore well south of Sicily in order to earn a 12.5% interest in a 66 thousand acre Italian Government permit. This well, expected to cost $12 million, was in the drilling stage at year end. The lands covered by the permit are ten miles southeast of the 1981 Vega oil discovery and thirty miles north of a recent oil discovery in Maltese waters.

Oil recovery in Westcoast Petroleum's Crystal oil field is enhanced by a water flood system. Shown is the water pumping facility.

Summary of Land Holdings (Acres)

	December 31			
	1984		1983	
	Gross	**Net**	Gross	Net
Canada:				
Alberta	**1,570,971**	**767,968**	1,481,699	767,902
British Columbia	**752,065**	**277,769**	690,486	228,235
Saskatchewan	**30,521**	**16,408**	1,225	1,225
Northwest Territories	**68,209**	**11,528**	68,209	11,528
Arctic Islands	**2,101,232**	**—** *	2,101,232	— *
	4,522,998	**1,073,673**	4,342,851	1,008,890
United States	**121,543**	**48,531**	195,391	71,077
	4,644,541	**1,122,204**	4,538,242	1,079,967

* Royalty interest

Oil and Gas Capital Expenditures

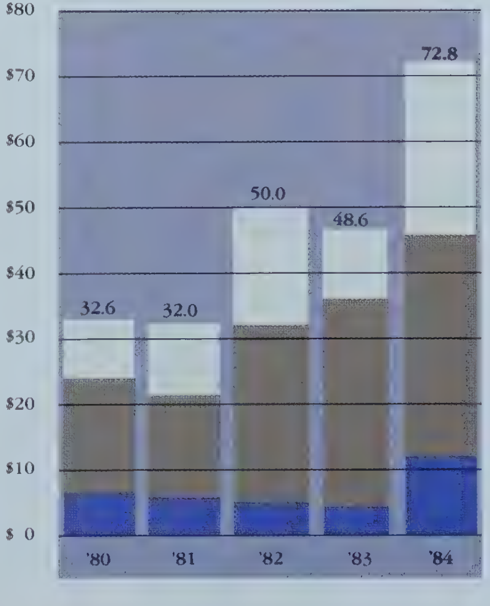
Before Deduction of Petroleum Incentives

$ million

Development

Exploration

Land Acquisitions



Financial Review

- **Net Income $60.4 Million**
- **Cash Flow Increased by $6.8 Million**
- **Non-pipeline Activities Contribute Significantly to Earnings**

Shown is the Company's Fort Nelson natural gas processing plant with the sulphur recovery facilities in the foreground. The Company has similar facilities at Taylor near Fort St. John and at Pine River near Chetwynd.

Financial Review

Consolidated net income for the year ended December 31, 1984 amounted to $60.4 million. This represents a decline from the 1983 results prior to an extraordinary write-off of $16.7 million but is higher by $12 million than the equivalent figure in 1983 after that write-off.

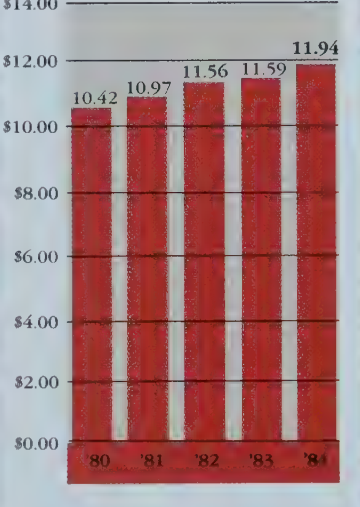
After provision for preferred share dividends, net income per common share amounted to $1.41 in 1984. This figure compares to $1.52 in 1983 prior to giving effect to the extraordinary write-off in that year. After giving effect to that write-off, however, the 1983 earnings available for each common share was reduced to $1.11.

Consolidated operating revenues increased marginally in 1984. Due principally to increased gas volumes exported by Westcoast and increased oil and gas sales by Westcoast Petroleum, consolidated operating revenues totalled $1.15 billion compared with $1.13 billion in 1983. Consolidated cash flows from operations increased in 1984 from $158.4 million to $165.2 million. The largest element of the increase was attributable to an increase in Westcoast Petroleum's operating cash flow, partially offest by a reduction in the cash flow derived from Westcoast's pipeline system operations. This reduction, in turn, was a function of a reduction in average rate base in 1984 to $695 million from $739 million in 1983. With the higher utility capital expenditures expected in 1985, the Company's rate base should increase moderately by December 31, 1985.

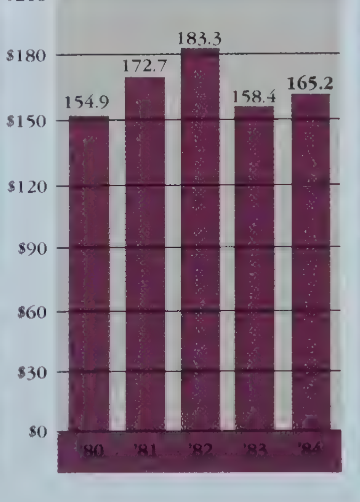
Despite the higher impact of taxes on Westcoast Petroleum's earnings, Westcoast's subsidiary and affiliated companies continued to make a significant contribution to consolidated net income in 1984.

- Foothills' contribution to the Company's net income in 1984 was $12.0 million, compared with $11.8 million before extraordinary item in 1983. Dividends and share redemptions have resulted in cash recoveries of Westcoast's investment in Foothills of $8.7 million in 1984 and $29.3 million since the Foothills system went into operation in the fall of 1981.
- Westcoast Petroleum's net income in 1984 was $10.7 million, a decrease from $12.7 million reported in 1983. This decrease resulted primarily from higher income taxes and higher depreciation and depletion charges related to oil and natural gas production which more than offset increased revenues from the sale of oil and natural gas. Cash generated from operations in 1984 was $36.5 million, up 20 percent from $30.4 million recorded in 1983. The Company owns 100% of the shares of Westcoast Petroleum and its earnings flow entirely to the Company.
- Pacific Northern's net income in 1984 was $4.1 million compared with $4.0 million in 1983. After preferred share dividends, the net income per common share was $2.36, an increase from $2.31 per common share in 1983. The Company's share of these earnings was $1.7 million in 1984 and 1983. The Company owns 45% of the common shares of Pacific Northern including all the voting shares.

Westcoast Vice Presidents: left to right, A. J. Green, Administration; D. H. Parkinson, Senior Vice President and Chief Financial Officer; R. B. Maas, Marketing and Regulatory Affairs; G. W. Lade, Secretary and General Counsel.



Shareholders' Equity Per Common Share



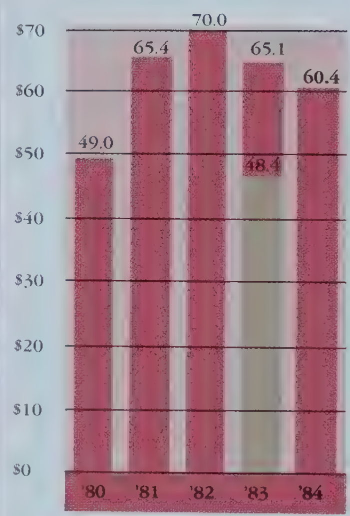
Cash Flow From Operations
$ million

Shown is a section of the Fort Nelson gas processing plant. Total plant capacity is 800 million cubic feet per day.

Net Income
$ million

Before Extraordinary Item

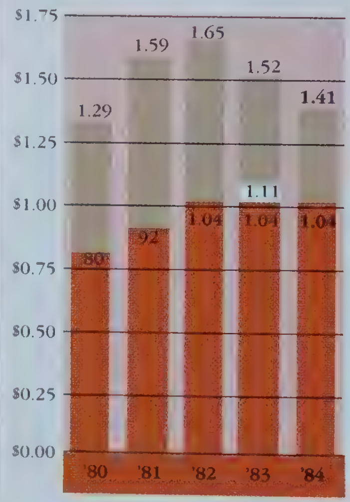
Including Extraordinary Item



Earnings Per Common Share
Before Extraordinary Item

Including Extraordinary Item

Dividends Paid Per Common Share



- Saratoga's net income in 1984 was $919 thousand or $1.84 per share, an increase from $860 thousand or $1.72 per share in 1983. The Company owns 25% of the outstanding shares of Saratoga, including all of the voting shares.

Contributions to Income
(non-consolidated basis) **For the years ended December 31**

	1984		1983	
Income from Investments:	**$ millions**	**%**	$ millions	%
Utility assets and other	**121.7**	**83**	115.1	81
Foothills Pipe Lines (Yukon) Ltd.	**12.0**	**8**	11.8	8
Westcoast Petroleum Ltd.	**10.7**	**8**	12.7	9
Other subsidiaries	**1.8**	**1**	2.1	2
	146.2	**100**	141.7	100
Deduct:				
Interest and other items	**62.4**		61.6	
Income taxes	**23.4**		15.0	
Net income*	**60.4**		65.1	

* Before extraordinary item

Westcoast's Investment in Assets
(non-consolidated basis) **December 31, 1984**

Utility assets and other	76%
Foothills Pipe Lines (Yukon) Ltd.	10
Westcoast Petroleum Ltd.	13
Other subsidiaries	1
	100%

Capitalization
The Company's financial statements shown in this report on pages 15 through 27 reflect a full consolidation of the financial results of all subsidiary companies and also a consolidation of Westcoast's proportionate share of the Foothills group of companies. The following table displays Westcoast's capital structure including and excluding the proportionate share of Foothills' long term debt. It should be noted that none of the Foothills' indebtedness is guaranteed by Westcoast or NOVA, an Alberta Corporation, the two sponsor companies.

	Consolidation Excluding Foothills		Consolidation Including Foothills	
	1984	1983	**1984**	1983
Long term debt	**52%**	53%	**58%**	59%
Preferred shares	**3**	3	**3**	3
Common equity	**45**	44	**39**	38
	100%	100%	**100%**	100%

Management Responsibility for Financial Reporting

The consolidated financial statements and all information in this report have been prepared by and are the responsibility of management. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in Canada. Management depends upon the Company's system of internal controls and formal policies and procedures to ensure the integrity and reliability of accounting and financial reporting, and, to provide reasonable assurance that assets are safeguarded and that transactions are properly executed in accordance with management's authorization. Management is also supported and assisted by a program of internal audit.

Clarkson Gordon, Chartered Accountants, the shareholders' auditors, have performed an independent examination of the consolidated financial statements in this report. Their examination was made in accordance with generally accepted auditing standards and they have performed such tests and other procedures as they considered necessary. Their independent professional opinion on the fairness of these consolidated financial statements is included under the Auditors' Report.

The Audit Committee of the Board of Directors is comprised solely of directors who are not employees of the Company or of its subsidiaries. This Committee meets regularly with management, the internal auditors and the shareholders' auditors to review the financial statements, the Auditors' Report and other auditing and accounting matters to ensure that each group is properly discharging its responsibilities. The Audit Committee reports its findings to the Board of Directors for final approval of the consolidated financial statements.

D. H. Parkinson
Senior Vice President
and Chief Financial Officer

Auditors' Report

To the Shareholders of
Westcoast Transmission Company Limited:

We have examined the consolidated balance sheets and the consolidated statements of long term debt of Westcoast Transmission Company Limited as at December 31, 1984 and 1983 and the consolidated statements of operations, retained earnings and changes in financial position for each of the years in the three year period ended December 31, 1984. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1984 and 1983 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1984 in accordance with accounting principles generally accepted in Canada, consistently applied, except for the changes with which we concur, in 1984 in the method of accounting for foreign currency translation and in 1983 in the method of accounting for income taxes, both as explained in Note 1 to the consolidated financial statements.

Vancouver, Canada
February 4, 1985
(Febrauary 27, 1985
with respect to Note 17).

Clarkson Gordon
Chartered Accountants

WESTCOAST TRANSMISSION COMPANY LIMITED
(Incorporated under the laws of Canada)

CONSOLIDATED BALANCE SHEETS

DECEMBER 31

	1984	1983
	(in thousands)	
Assets		
Plant, property and equipment (Note 2)	**$1,994,947**	$1,901,673
Less accumulated depreciation and depletion	**610,561**	538,022
	1,384,386	1,363,651
Current assets:		
Cash and temporary cash investments	**5,040**	7,743
Sinking fund deposits with trustees:		
Principal	**1,512**	1,856
Interest	**1,765**	1,591
Accounts receivable:		
Trade	**151,052**	186,703
Other	**18,611**	15,250
Materials and supplies	**17,077**	13,807
Line pack gas	**7,384**	9,237
Prepayments	**2,446**	2,767
Deferred operating expenses (Note 3)	**869**	2,051
	205,756	241,005
Deferred charges and other investments:		
Debt discount, premium and expense	**8,023**	9,078
Northern pipeline projects (Note 4)	**78,809**	76,522
Unrealized foreign exchange losses (Note 1)	**20,145**	1,638
Other (Note 5)	**54,662**	27,158
	161,639	114,396
	$1,751,781	$1,719,052

	1984	1983
	(in thousands)	
Common Shareholders' Equity		
Common stock (Note 6):		
Authorized — 75,000,000 common shares without nominal or par value		
Issued — 40,741,498 common shares (1983 — 40,731,498 common shares)	**$ 233,652**	$ 233,517
Contributed surplus	**2,158**	2,123
Retained earnings	**250,479**	236,556
	486,289	472,196
Preferred Shareholders' Equity		
Preferred stock (Note 8):		
Authorized — 5,000,000 preferred shares without nominal or par value		
Issued — 684,191 $4.25 cumulative redeemable preferred shares series A (1983 — 739,322 preferred shares)	**34,210**	36,966
Liabilities		
Long term obligations:		
Long term debt (Note 11)	**707,677**	732,421
Deferred income taxes (Note 13)	**243,123**	215,445
	950,800	947,866
Current liabilities:		
Bank indebtedness	**46,414**	—
Accounts payable	**139,700**	165,930
Income and other taxes payable (Note 13)	**27,936**	26,552
Interest on debt	**19,131**	19,661
Long term debt due within one year	**23,685**	27,929
	256,866	240,072
Minority interest in subsidiary companies:		
Preferred shares	**5,000**	5,000
Common shares	**18,616**	16,952
	23,616	21,952
Commitments and contingencies (Note 16)		
	$1,751,781	$1,719,052

(See accompanying notes)

On behalf of the Board:

Director

Director

WESTCOAST TRANSMISSION COMPANY LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31

	1984	1983	1982
		(in thousands)	
Operating revenues:			
Gas and oil sales	**$1,083,513**	$1,064,204	$1,113,841
Other	**64,294**	62,901	43,110
	1,147,807	1,127,105	1,156,951
Operating revenue deductions:			
Cost of gas sold	**706,180**	701,819	737,389
Operation and maintenance	**112,244**	109,108	103,324
Depreciation and depletion	**74,292**	70,645	66,279
Taxes — other than income taxes	**55,840**	52,693	53,865
	948,556	934,265	960,857
Operating income	**199,251**	192,840	196,094
Other income:			
Allowance for funds used during construction	**1,570**	2,309	30,768
Northern pipeline projects Phase II recovery (Note 4)	**3,648**	3,486	1,192
Investment and other income (Note 5)	**9,605**	4,806	6,095
	214,074	203,441	234,149
Income deductions:			
Interest on debt (Note 11)	**89,878**	91,293	91,655
Debt discount, premium and expense	**1,076**	1,056	762
Other	**3,527**	2,124	4,332
	94,481	94,473	96,749
Income before undernoted items	**119,593**	108,968	137,400
Income taxes (Note 13):			
Current	**28,950**	21,050	6,814
Deferred	**27,059**	19,366	55,722
	56,009	40,416	62,536
Minority interest	**3,208**	3,463	4,817
Income before extraordinary item	**60,376**	65,089	70,047
Extraordinary item, net of deferred income taxes (Note 4)	**—**	16,645	—
Net income	**60,376**	48,444	70,047
Provision for dividends on preferred shares	**3,098**	3,142	3,142
Net income applicable to common shares:			
Including extraordinary item	**$ 57,278**	$ 45,302	$ 66,905
Before extraordinary item	**$ 57,278**	$ 61,947	$ 66,905
Common shares outstanding — weighted average	**40,735**	40,721	40,632
Per common share — basic (Note 7):			
Including extraordinary item	**$1.41**	$1.11	$1.65
Before extraordinary item	**$1.41**	$1.52	$1.65
Dividends per common share	**$1.04**	$1.04	$1.04

(See accompanying notes)

WESTCOAST TRANSMISSION COMPANY LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

FOR THE YEARS ENDED DECEMBER 31

	1984	1983	1982
		(in thousands)	
Operating activities:			
Operations:			
Income before extraordinary item	**$ 60,376**	$ 65,089	$ 70,047
Add (deduct) items not involving a flow of cash:			
Minority interest	**3,208**	3,463	4,817
Deferred income taxes	**27,059**	19,366	55,722
Depreciation, depletion and amortization	**76,603**	71,782	67,178
Allowance for equity funds used during construction	**(518)**	(825)	(14,496)
Equity component of deferred carrying charges	**(1,561)**	(515)	—
	165,167	158,360	183,268
Change in non-cash working capital:			
Accounts receivable	**32,290**	(28,662)	(15,443)
Accounts payable	**(26,230)**	29,721	7,736
Income and other taxes payable	**1,384**	9,358	8,685
Other non-cash working capital items	**(274)**	(756)	(189)
	7,170	9,661	789
Financing activities:			
Long term debt additions less repayments	**(48,688)**	31,773	109,194
Common shares issued	**135**	298	631
Preferred shares redeemed	**(2,756)**	—	—
	(51,309)	32,071	109,825
Financial resources generated for investments and dividends	**$121,028**	$200,092	$293,882
Investment activities:			
Additions to plant, property and equipment:			
Westcoast utility system	**$ 39,161**	$ 26,303	$ 76,397
Oil and gas exploration and development costs	**72,776**	48,552	50,043
Petroleum incentives	**(21,394)**	(17,201)	(13,065)
Other	**6,210**	14,988	79,884
	96,753	72,642	193,259
Investment in Westcoast Petroleum Ltd. (Note 14)	**—**	—	87,667
Northern pipeline projects	**2,287**	(1,171)	13,094
Other	**23,941**	738	11,553
	122,981	72,209	305,573
Dividends:			
Dividends on common and preferred shares	**45,482**	45,494	45,422
Dividends paid by subsidiaries to minority interests	**1,682**	1,593	2,255
	47,164	47,087	47,677
Total investments and dividends	**$170,145**	$119,296	$353,250
Increase (decrease) in cash position during the year	**$(49,117)**	$ 80,796	$(59,368)
Cash position, beginning of year	**7,743**	(73,053)	(13,685)
Cash position, end of year	**$(41,374)**	$ 7,743	$(73,053)

Cash position consists of cash and temporary cash investments net of bank indebtedness.

(See accompanying notes)

WESTCOAST TRANSMISSION COMPANY LIMITED
CONSOLIDATED STATEMENTS OF LONG TERM DEBT

DECEMBER 31

	Due Date	1984 United States Dollars	1984 Canadian Dollars	1983 United States Dollars	1983 Canadian Dollars
		(in thousands)			
Westcoast Transmission Company Limited					
First Mortgage Pipe Line Bonds					
5¾% Series D	1984	$	$ —	$	$ 3,119
5¾% Series E	1984		—		1,305
7% Series F	1988	**14,463**	**19,112**	18,544	20,664
8% Series G	1991		**54,742**		58,341
9¾% Series H	1996	**38,750**	**51,204**	41,000	40,953
Debentures					
7½% Debentures, First Series	1991		**437**		502
8½% Debentures, 1993 Series	1993		**33,576**		35,473
9⅞% Debentures, 1998 Series	1998		**70,445**		72,479
10½% Debentures, 1999 Series	1999		**72,940**		75,000
12¼% Debentures, 2000 Series	2000		**95,008**		100,000
16¾% Debentures, 1987 Series	1987		**50,000**		50,000
12½% Debentures, 1993 Series	1993		**60,000**		60,000
Subordinate Debentures					
5½% Series A	1988	**6,077**	**8,030**	7,420	7,702
5½% Series B	1988	**831**	**1,098**	831	796
5½% Series C	1988	**928**	**1,227**	1,138	1,150
Vancal Properties Ltd.					
7½% Secured Notes	1994	**3,107**	**4,105**	3,308	3,550
Westcoast Petroleum Ltd.					
Term Bank Loan — prime rate	1985/87		**2,317**		2,367
10% Sinking Fund Debentures, First Series	1993		**15,000**		16,250
Pacific Northern Gas Ltd.					
Term Construction Loan			**1,005**		994
First Mortgage Pipe Line Bonds					
7¾% Series A	1988	**4,162**	**5,500**	5,087	5,470
9¼% Series B	1991	**1,295**	**1,711**	1,480	1,492
Debentures					
17¾% Debentures, 1987 Series	1987		**12,500**		12,500
18% Debentures, 1997 Series	1997		**25,575**		27,500
Foothills Pipe Lines (Yukon) Ltd.					
Term Bank Loans — composite rate 12% (1983 - 11¾%)	1988/96		**145,830**		162,743
			731,362		760,350
Deduct long term debt due within one year			**23,685**		27,929
			$707,677		$732,421

(See accompanying notes)

WESTCOAST TRANSMISSION COMPANY LIMITED
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31

	1984	1983	1982
		(in thousands)	
Unappropriated retained earnings:			
Balance, beginning of year	**$199,590**	$197,842	$174,491
Net income	**60,376**	48,444	70,047
Tax allocation (Note 1)	**(971)**	(1,202)	(1,274)
	258,995	245,084	243,264
Deduct dividends paid:			
Common shares	**42,364**	42,352	42,280
Preferred shares	**3,118**	3,142	3,142
	45,482	45,494	45,422
	213,513	199,590	197,842
Transferred from appropriated retained earnings	**2,756**	—	—
Balance, end of year	**216,269**	199,590	197,842
Appropriated retained earnings (Note 9):			
Reserve for redemption of preferred shares			
Balance, beginning of year	**36,966**	36,966	36,966
Transferred to unappropriated retained earnings for redemption	**(2,756)**	—	—
Balance, end of year	**34,210**	36,966	36,966
Retained earnings, end of year	**$250,479**	$236,556	$234,808

(See accompanying notes)

WESTCOAST TRANSMISSION COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1984

1. Accounting Policies and Regulatory Methodology:

Accounting Principles:

The Company prepares its accounts in accordance with accounting principles generally accepted in Canada which, as applied in these financial statements except as described in Note 15, conform in all material respects with accounting principles generally accepted in the United States. The consolidated financial statements are presented in Canadian dollars unless otherwise stated.

Principles of Consolidation:

The consolidated financial statements include the accounts of the Company and the following:

- Westcoast Transmission Company (Alberta) Ltd. (100% owned)
- Westcoast Transmission Holdings Ltd. (100% owned)
- Vancal Properties Ltd. (100% owned)
- Saratoga Processing Company Limited (25% owned, including 100% of the voting shares)
- Pacific Northern Gas Ltd. (45% owned, including 100% of the voting shares)
- Westcoast Petroleum Ltd. (100% directly and indirectly owned)
- Foothills Pipe Lines (Yukon) Ltd. (50% owned, proportionately consolidated)
- Foothills Pipe Lines (North B.C.) Ltd. (74.5% directly and indirectly owned, proportionately consolidated)

Regulation:

The Company is subject to the National Energy Board Act and to the jurisdiction of the National Energy Board. That Board regulates accounting matters, exports of natural gas, construction and operation of natural gas pipelines and the rates, tolls and charges of the Company.

Cost of Service:

The Company and its subsidiary, Westcoast Transmission Company (Alberta) Ltd., operate under a gas purchase agreement with the British Columbia Petroleum Corporation, a Crown corporation of the Province of British Columbia. Under this agreement, the Company is reimbursed for costs which include operating, maintenance and administrative expenses, depreciation of the Company's investment in utility assets, income taxes and other taxes. The agreement also enables the Company to receive a return on its utility rate base (primarily the undepreciated portion of plant, property and equipment) and also provides for the reimbursement of that portion of foreign exchange gains or losses on foreign debt repayments and foreign interest payments associated with the financing of its utility rate base and construction work in progress.

Operating, Maintenance and Administrative Expenses:

The Company's reimbursement of its operating, maintenance and administrative expenses pertaining to its utility system is limited to amounts approved from time to time by the National Energy Board. If expenses exceed the approved amounts, the recovery of the excess together with related carrying costs are deferred pending the Board's decision to permit recovery by way of inclusion in the Company's cost of service in the subsequent year. Any amounts not allowed to be included in cost of service result in a reduction of the Company's income.

Rate of Return on Rate Base:

The National Energy Board directed the Company to adopt, effective January 1, 1983, a rate of return on capital employed in rate base of 12.05% on an after income tax basis and to recover

income taxes currently payable through cost of service.

For the year ended December 31, 1982, the Company's approved rate of return before income taxes on rate base was 17.90% which, after taking into account income taxes calculated on the income tax allocation basis, was based on an after income tax rate of 11.51%.

Income Taxes:

The National Energy Board directed the Company to adopt, effective January 1, 1983, the income taxes currently payable basis of accounting for income taxes relating to its utility operations. Under this basis, no provision is made for income taxes deferred as a result of differences in timing between the treatment for income tax and book purposes of various items of income and expenditure. The Company continues to use the income tax allocation basis for its non-utility operations.

For the period November 1, 1979 to December 31, 1982 the Company was directed to use the income tax allocation basis of accounting for income taxes. Prior to November 1, 1979, the income taxes currently payable basis was used. Items deducted for income tax purposes that were related to the Company's non-utility operations prior to November 1, 1979 and which involved timing differences between the income tax and accounting treatment, necessitate a charge to retained earnings upon the reversal of these timing differences.

Westcoast Transmission Company (Alberta) Ltd. provides for income taxes on the income taxes currently payable basis. Saratoga Processing Company Limited provides for income taxes on the tax allocation basis, except for operations related to facilities added after January 1, 1982. All other companies provide for income taxes on the tax allocation basis.

If all the companies had used the tax allocation basis to provide for income taxes the provision for the year ended December 31, 1984 would have decreased by $8,226,000 (increased for the year ended December 31, 1983 — $3,084,000, decreased for the year ended December 31, 1982 — $1,113,000) and the unrecorded accumulated provision to December 31, 1984 would have been $156,134,000 (December 31, 1983 — $164,360,000, December 31, 1982 — $161,276,000).

Investment tax credits are accounted for using the deferral and amortization basis for non-utility operations and the currently payable basis for utility operations.

Translation of United States Funds:

Effective January 1, 1984 all long term debt payable in United States funds is translated into Canadian dollars at exchange rates prevailing at the end of the fiscal periods. The resultant unrealized foreign exchange gains or losses are deferred. In excess of 80% of the unrealized foreign exchange gains or losses are related to financing of utility assets and are therefore recoverable through cost of service as incurred. The unrealized foreign exchange gains or losses not recoverable through cost of service are amortized on a straight-line basis over the remaining life of the long term debt payable.

As a result of this new accounting treatment which was applied prospectively, long term debt has been increased by $19,700,000 as at December 31, 1984. The amortization of the non-recoverable portion of the future foreign exchange losses reduced income by $1,194,000 or $0.03 per share for the year ended December 31, 1984.

Prior to 1984, long term debt, exclusive of the portion of long term debt due within one year, issued in United States funds was translated at exchange rates prevailing at the respective dates of issue.

The Company's United States funds on deposit with banks and trustees and current liabilities payable in United States funds have been translated into Canadian dollars at the exchange rates prevailing at the end of the fiscal periods. The resulting gains or losses are reflected in income. Exchange gains or losses resulting from redemption or purchases of long term debt, net of the portion recovered through cost of service, are included in income.

Plant, Property and Equipment:

Plant, property and equipment are valued at cost. The Company follows the full-cost method of accounting for its oil and gas properties whereunder all expenditures related to the acquisition, exploration and development of oil and gas reserves are capitalized at the lower of cost or forecasted net revenues from future production. Federal and Provincial incentive payments for exploration and development are treated as deductions from the cost of related assets.

Capitalization and Maintenance:

Maintenance and repairs are charged to expense accounts when incurred. The costs of major replacements, extensions or improvements are capitalized as plant, property and equipment. Upon retirement or sale of items of plant, property or equipment, the original costs associated with such items are charged against the applicable accumulated depreciation accounts and the net proceeds of disposal are credited to accumulated depreciation.

Allowance for Funds Used During Construction:

The National Energy Board directed the Company to adopt, effective January 1, 1983, the prescribed rate of return on rate base of 12.05% for calculating an allowance for funds used during construction to be charged to plant, property and equipment (for the year ended December 31, 1982 — 11.51%).

The consolidated financial statements also reflect an allowance for funds used during construction recorded with respect to construction in progress of Pacific Northern Gas Ltd., Saratoga Processing Company Limited and Foothills Pipe Lines (Yukon) Ltd. The allowed rates are the demand loan rates for Pacific Northern Gas Ltd. and 13.50% for Saratoga Processing Company Limited for the year ended December 31, 1984 (for the years ended December 31, 1983 — 14.25%, December 31, 1982 — 17.50%). The allowed rates for Foothills Pipe Lines (Yukon) Ltd. are described in Note 4.

Depreciation and Depletion:

Depreciation is calculated using straight-line rates determined on the economic life of the assets in service as appropriate. The various rates used by the Company resulted in a composite rate of 3.9% for the year ended December 31, 1984 (for the years ended December 31, 1983 — 4.0%, December 31, 1982 — 4.2%).

Depletion of oil and gas properties is calculated by using a composite unit-of-production method based on total estimated proven reserves.

Temporary Cash Investments:

Temporary cash investments are valued at cost which approximates market value.

Materials and Supplies:

Materials and supplies are valued at the lower of their weighted average cost determined on a first-in, first-out basis or net realizable value.

Line Pack Gas:

Line pack gas is valued at cost.

Deferred Charges and Other Investments:

Discounts, premiums and expenses related to long term debt are being amortized over the life of the respective debt issues.

Costs relating to projects which may benefit future periods are being deferred. Deferred costs applicable to projects which have been terminated are expensed.

Other long term investments are recorded at cost.

Contributed Surplus:

The contributed surplus shown in the Company's accounts is primarily related to contributions and grants received in aid of construction which are deducted from the Company's rate base. In order to conform the rate base to amounts of fixed assets as recorded, the Company is, with National Energy Board approval, restoring the amounts of the contributions to rate base over a 60 month period and reducing cost of service by the same amount.

Pension Plan:

The Company has a non-contributory pension plan covering substantially all employees. Pension costs charged to operations were $1,207,000 for the year ended December 31, 1984 (for the years ended December 31, 1983 — $969,000, December 31, 1982 — $1,576,000). The plan is subject to periodic actuarial evaluations. The last actuarial evaluation was conducted as at December 31, 1983. At that time there was no unfunded liability.

Comparative Figures:

The comparative figures have been reclassified to conform to the 1984 presentation.

2. Plant, Property and Equipment:

	December 31 1984	1983
	$000	
Westcoast Transmission Company Limited and Westcoast Transmission Company (Alberta) Ltd.		
Gathering pipeline system	**$ 286,057**	$ 283,025
Processing plant	**297,851**	285,492
Transmission pipeline system	**560,104**	548,247
Miscellaneous plant and equipment	**61,336**	58,228
Construction work in progress	**19,508**	7,853
	1,224,856	1,182,845
Westcoast Petroleum Ltd.		
Oil and gas properties	**332,560**	291,648
Production equipment	**44,570**	35,520
Oil pipeline system	**40,963**	41,041
	418,093	368,209
Other subsidiaries		
Gathering pipeline system	**3,434**	3,434
Processing plant	**8,634**	7,205
Transmission pipeline system	**82,196**	79,339
Distribution pipeline system	**19,335**	18,752
Miscellaneous plant and equipment	**9,005**	8,971
Construction work in progress	**943**	1,785
	123,547	119,486
Foothills Pipe Lines (Yukon) Ltd.		
Transmission pipeline system and equipment	**228,431**	231,108
Construction work in progress	**20**	25
	228,451	231,133
Total plant, property and equipment	**1,994,947**	1,901,673
Deduct:		
Accumulated depreciation		
Westcoast Transmission Company Limited and Westcoast Transmission Company (Alberta) Ltd.	**444,554**	397,744
Westcoast Petroleum Ltd.	**50,790**	47,426
Other subsidiaries	**26,933**	24,334
Foothills Pipe Lines (Yukon) Ltd.	**22,573**	15,465
	544,850	484,969
Accumulated depletion Westcoast Petroleum Ltd.	**65,711**	53,053
Total accumulated depreciation and depletion	**610,561**	538,022
	$1,384,386	$1,363,651

3. Deferred Operating Expenses:

For the year ended December 31, 1984, the Company's actual operating and maintenance expenses were below the amount budgeted and approved by the National Energy Board by $1,130,000. However, certain cost centres had actual expenditures which exceeded the approved amounts by an aggregate of $860,000. The Company has not charged this aggregate amount and the carrying charges accrued thereon to cost of service for the year ended December 31, 1984. The Company has made an application for the recovery of these deferred operating expenses and the carrying charges accrued to the date of recovery. Any amount not allowed to be included in the cost of service will result in a reduction of the Company's income.

Following receipt of approval from the National Energy Board, the Company has recovered substantially all of the deferred operating expenses of prior years.

4. Northern Pipeline Projects:

The Company owns 50% of the outstanding common shares of Foothills Pipe Lines (Yukon) Ltd. which has been given the responsibility by the National Energy Board for construction of the Canadian portion of the Alaska Highway Natural Gas Pipeline Project for transportation of Alaskan natural gas through Canada to the United States border.

Phase I of the project consists of pipeline facilities from Caroline, Alberta to Monchy, Saskatchewan and Kingsgate, British Columbia. The balance of the project is known as Phase II. Prior to the delivery of Alaskan natural gas, Phase I is being used to deliver Alberta natural gas to the United States. The National Energy Board has permitted Foothills Pipe Lines (Yukon) Ltd. a rate of return on the Phase I rate base which includes an incentive rate of return mechanism to yield an effective return to common equity of approximately 18%. The allowance for funds used during construction has been capitalized at a rate of 17.50%.

With respect to Phase II of the project, the Company recorded in income an allowance for funds used during construction at the National Energy Board approved composite rates varying between 11.51% and 13.30% for the period January 1, 1981 to August 31, 1982.

As of September 1, 1982, the National Energy Board directed Foothills Pipe Lines (Yukon) Ltd. to begin recovering approximately $124,000,000 (of which Westcoast's share is approximately $49,000,000) of Phase II expenditures under the tariff applicable to the Phase I operations. The National Energy Board also permitted Foothills Pipe Lines (Yukon) Ltd. a pre-tax rate of return of 16% on the unamortized balance of $124,000,000.

Due to the extension of the projected completion date of Phase II to 1989 or a later date and because it was not possible to establish a date certain for the commencement of any construction activities, the Company, as of September 1, 1982, reduced its recognition of its pro rata share of the allowance for funds used during construction, and as of January 1, 1983 discontinued recording its pro rata share of the allowance for funds used during construction recorded by Foothills Pipe Lines (Yukon) Ltd. with respect to the balance of the Phase II expenditures.

Furthermore, due to the continuing uncertainty of the timing of the project, a substantial change has occurred in the original program. Accordingly, an extraordinary provision covering certain costs relating to Phase II was reflected in the 1983 Consolidated Statements of Operations of $23,549,000 net of deferred income taxes of $6,904,000.

The components of the Company's Consolidated Balance Sheets and Statements of Operations relating to its share of the activities of Foothills Pipe Lines (Yukon) Ltd. and its subsidiaries are shown below:

Balance Sheets

	December 31 1984	1983	1982
		$000	
Plant, property and equipment	**$228,451**	$231,133	$223,064
Accumulated depreciation	**(22,573)**	(15,465)	(8,817)
Current assets	**12,794**	10,918	13,368
Northern pipeline projects	**78,809**	76,522	101,242
	$297,481	$303,108	$328,857
Long term debt	**$139,494**	$156,035	$157,390
Deferred income taxes	**20,778**	12,421	4,768
Current liabilities	**8,670**	13,297	17,138
Westcoast equity:			
Phase I*	**49,730**	44,833	48,319
Phase II*	**78,809**	76,522	101,242
	$297,481	$303,108	$328,857

* These amounts represent the Company's carrying value of its share in the projects prior to taking into account income tax savings realized amounting to $24,506,000 which are recorded in the Company's accounts.

Statements of Operations

	For the years ended December 31		
	1984	1983	1982
		$000	
Operating revenues	**$ 50,584**	$ 49,157	$ 27,457
Operating revenue deductions	**14,264**	14,006	9,220
	36,320	35,151	18,237
Allowance for funds used during construction	**—**	852	25,747
Northern pipeline projects Phase II recovery	**3,648**	3,486	1,192
Other income	**258**	1,001	635
	40,226	40,490	45,811
Interest on debt	**19,951**	20,662	23,481
	20,275	19,828	22,330
Income taxes	**8,258**	8,073	4,184
Income before extraordinary item	**$ 12,017**	$ 11,755	$ 18,146

5. Other Deferred Charges and Investments:

In its decision of August 1983 on the Company's 1983 rate application, the National Energy Board directed the Company, on an interim basis, to transfer from its rate base for cost of service purposes, to a deferral account, the costs incurred in the replacement of defective pipe in the Grizzly Valley Pipeline. The National Energy Board further directed the Company to accumulate deferred carrying charges at the Company's allowed rate of return on rate base of 12.05%. This interim provision is to continue in effect until either the conclusion of the litigation commenced by the Company or December 31, 1985, whichever is the earlier. Accordingly, as at December 31, 1984 an amount of $27,109,000 (December 31, 1983 — $24,031,000) which represents repair costs relating to the Grizzly Valley Pipeline together with carrying charges amounting to $4,123,000 (December 31, 1983 — $1,062,000) has been recorded as a deferred charge.

Other long term investments carried at a cost of $22,562,000 had a quoted market value of $17,000,000 at December 31, 1984.

6. Common Stock:

(a) During 1984 the Company issued 10,000 common shares on options exercised at an option price of $13.50 per share, increasing common stock by $135,000.

(b) During 1983 the Company issued 41,500 common shares on options exercised at option prices ranging from $5.166 to $13.50 per share, increasing common stock by $298,000.

(c) During 1982 the Company issued 75,000 common shares on options exercised at option prices ranging from $6.458 to $12.00 per share, increasing common stock by $631,000.

(d) Common share reservations and options:

(i) Share options which became exercisable and options exercised are summarized as follows:

	For the years ended December 31	
	1984	1983
Number of shares with respect to which options became exercisable	**68,900**	83,700
Option Price:		
Per share-range	**$11.50 - $15.00**	$11.50 - $15.00
Total	**$1,009,000**	$1,209,000
Market value at date exercisable:		
Per share-average	**$14.11**	$14.57
Total	**$972,000**	$1,220,000
Number of shares with respect to which options were exercised*	**10,000**	41,500
Option Price:		
Per share-range	**$13.50**	$5.166 - $13.50
Total	**$135,000**	$298,000
Market value at date exercised:		
Per share-average	**$14.63**	$14.43
Total	**$146,000**	$599,000

* Upon the issuance of common shares under these options the proceeds are credited to the common stock account. No charges are made against income with respect to these transactions.

(ii) Included in the common shares reserved for outstanding options, as set out below, are 276,000 common shares optioned to directors and officers (December 31, 1983 — 268,000 common shares):

Date Granted	Original Number of Shares Optioned	Option Price*	Shares Under Option
	December 31, 1984		
April 20, 1976	**150,000**	**$ 7.875**	**53,500**
April 19, 1979	**162,000**	**13.50**	**59,600**
February 5, 1980	**131,000**	**14.50**	**16,000**
February 10, 1981	**76,000**	**15.00**	**66,000**
October 28, 1981	**177,200**	**11.50**	**9,000**
February 9, 1983	**108,500**	**14.25**	**108,500**
October 27, 1983	**145,000**	**15.00**	**145,000**
	949,700		**457,600**
	December 31, 1983		
April 20, 1976	150,000	$ 7.875	53,500
April 19, 1979	162,000	13.50	69,600
February 5, 1980	131,000	14.50	16,000
February 10, 1981	76,000	15.00	66,000
October 28, 1981	177,200	11.50	9,000
February 9, 1983	108,500	14.25	108,500
October 27, 1983	145,000	15.00	145,000
	949,700		467,600

* Option price equals market value at grant date.

(iii) On April 27, 1983 the shareholders approved the reservation of 500,000 common shares for employee options of which 336,925 have not been allocated. The Directors may from time to time grant options at an option price of not less than 90% of the closing price of the common shares of the Company on the Toronto Stock Exchange on the day any such option is granted. The options are generally exercisable at the cumulative rate of 20% per year.

7. Earnings per Common Share:

Basic earnings per common share are calculated using the weighted average number of common shares outstanding during the fiscal period. There would be no significant dilutive effect on earnings per common share as the result of the exercise of share purchase options.

	For the years ended December 31		
	1984	1983	1982
Number of shares: (000)			
Beginning balance	**40,731**	40,690	40,615
Options exercised	**10**	41	75
Ending balance	**40,741**	40,731	40,690
Weighted average	**40,735**	40,721	40,632
Net income applicable to common shares: ($000)			
Before extraordinary item	**$57,278**	$61,947	$66,905
Including extraordinary item	**57,278**	45,302	66,905
Basic earnings per common share:			
Before extraordinary item	**$1.41**	$1.52	$1.65
Including extraordinary item	**1.41**	1.11	1.65

8. Preferred Stock:

The Preferred Shares Series A are redeemable at any time in whole or in part on not less than 30 days notice at the option of the Company at $50.50 per share.

On July 27, 1984 the Company, under the terms of issue for the Preferred Shares Series A, invited tenders from all holders to sell such shares at a price equal to $50.00 per share plus accrued and unpaid preferred dividends. All tenders received prior to February 15, 1985 shall be accepted. As at December 31, 1984, 55,131 shares had been tendered decreasing preferred stock by $2,756,000.

9. Appropriated Retained Earnings:

The Company has provided a Retraction Purchase Fund which is returned to unappropriated retained earnings as the Preferred Shares Series A are redeemed. Any balance remaining in the Retraction Purchase Fund at February 15, 1985 will be returned to unappropriated retained earnings.

10. Dividend Restriction:

The First Mortgage and the indentures relating to the Company's long term debt and preferred shares contain restrictions as to the declaration or payment of dividends (other than stock dividends) on common shares. Under the most restrictive provision, the amount available for dividends at December 31, 1984 was $134,000,000 (December 31, 1983 — $124,000,000, December 31, 1982 — $126,000,000).

11. Long Term Debt:

Effective January 1, 1984, all long term debt payable in United States funds is translated into Canadian dollars at exchange rates prevailing at the end of the fiscal periods (Note 1). Had this new accounting treatment been applied retroactively, long term debt including the portion due within one year as at December 31, 1983 would have been $776,641,000.

Long term debt payments, including sinking fund obligations, required in the five years ending December 31, 1989 are:
1985 — $23,660,000 1986 — $37,508,000 1987 — $103,313,000
1988 — $37,654,000 1989 — $31,012,000

The Company has lines of credit totalling $200,000,000 with two Canadian chartered banks. These lines of credit allow the Company to borrow from the banks or to issue bankers acceptances and are also used to support commercial paper issued by the Company. These lines of credit are subject to annual review by the chartered banks.

The Company's First Mortgage Pipe Line Bonds are secured by a specific First Mortgage on substantially all of the Company's fixed assets, its gas purchase contracts, its gas sales contracts, 807,200 common shares of Westcoast Petroleum Ltd. and by a first floating charge on other assets and its undertakings.

Interest on long term debt for the year ended December 31, 1984 amounted to $87,749,000 (for the years ended December 31, 1983 — $88,219,000, December 31, 1982 — $81,380,000).

12. Segmented Information:

More than 90% of the consolidated revenues and net income of the Company result from the sale of natural gas produced in Canada. In excess of 90% of the consolidated assets of the Company are situated in Canada and are used for the processing, transporting and sale of natural gas produced in Canada. The consolidated operating revenues of the Company is generated from the following sources:

	For the years ended December 31		
	1984	1983	1982
		$000	
Operating revenues:			
Canada	**$ 580,899**	$ 503,634	$ 422,963
United States — sales to Northwest Pipeline Corporation	**566,908**	623,471	733,988
	$1,147,807	$1,127,105	$1,156,951

The Company's operations can be segmented into two major areas:

Transmission — primarily the gathering, processing, transmission, distribution and marketing of natural gas.

Petroleum — exploration, development and production of crude oil and natural gas.

	For the years ended December 31		
	1984	1983	1982
		$000	
Operating revenues:			
Transmission	**$1,082,443**	$1,075,025	$1,104,321
Petroleum	**65,364**	52,080	52,630
	$1,147,807	$1,127,105	$1,156,951
Operating income:			
Transmission	**$ 166,632**	$ 164,614	$ 168,219
Petroleum	**32,619**	28,226	27,875
	$ 199,251	$ 192,840	$ 196,094
Total assets:			
Transmission	**$1,470,016**	$1,472,399	$1,483,729
Petroleum	**281,765**	246,653	224,184
	$1,751,781	$1,719,052	$1,707,913
Additions to plant, property and equipment:			
Transmission	**$ 45,371**	$ 41,291	$ 156,281
Petroleum	**51,382**	31,351	36,978
	$ 96,753	$ 72,642	$ 193,259
Depreciation and depletion:			
Transmission	**$ 59,911**	$ 59,892	$ 55,299
Petroleum	**14,381**	10,753	10,980
	$ 74,292	$ 70,645	$ 66,279

13. Income Taxes:

Income tax expense was $56,009,000 for the year ended December 31, 1984 reflecting an effective rate of 46.8% applied to income before income taxes, minority interest and extraordinary item (for the years ended December 31, 1983 — $40,416,000 (37.1%), December 31, 1982 — $62,536,000 (45.5%). The income tax expense varies from the amounts that would be computed by applying the combined Canadian federal and provincial income tax rates of approximately 50.3% for the year ended December 31, 1984 (for the years ended December 31, 1983 — 49.3%, December 31, 1982 — 50.5%) to income before income taxes, minority interest and extraordinary item for the following reasons:

	For the years ended December 31					
	1984		1983		1982	
	$000	**% of income before income taxes and minority interest**	$000	% of income before income taxes, minority interest and extraordinary item	$000	% of income before income taxes and minority interest
Federal and Provincial income tax rates applied to book income	**$60,164**	**50.3%**	$53,693	49.3%	$69,362	50.5%
Increase (decrease) in income taxes resulting from:						
Equity (non-taxable) portion of allowance for funds capitalized	**(2,075)**	**(1.7)**	(823)	(0.7)	(7,286)	(5.3)
Petroleum and natural gas activities	**3,964**	**3.3**	(1,361)	(1.3)	98	0.1
Investment tax credits	**(11,843)**	**(9.9)**	(6,289)	(5.8)	—	—
Other	**(1,456)**	**(1.3)**	(518)	(0.5)	362	0.2
	48,754	**40.7**	44,702	41.0	62,536	45.5
The reversion by the Company's utility operations to the income taxes currently payable method of accounting for income taxes (the "flow-through" method) from the tax allocation method (the "normalized" or deferred tax method) pursuant to a National Energy Board Decision dated August 1983 (Note 1):						
Capital cost allowance claimed for income tax purposes less than (in excess of) depreciation and amortization	**9,276**	**7.8**	(2,462)	(2.2)	—	—
Other items deducted for income tax purposes in advance of accounting charges	**(2,021)**	**(1.7)**	(1,824)	(1.7)	—	—
	7,255	**6.1**	(4,286)	(3.9)	—	—
Provision for income taxes	**$56,009**	**46.8%**	$40,416	37.1%	$62,536	45.5%

As at December 31, 1984, the Company had unclaimed investment tax credits of $10,033,000 available to reduce future Federal income taxes payable. These credits expire as follows:
1985 — $1,969,000 1986 — $3,103,000 1987 — $4,654,000
1988 — $307,000

Effective January 1, 1983, the Company was directed by the National Energy Board to adopt the income taxes currently payable basis for its utility operations (Note 1), under which no provision is made for deferred income taxes which result from timing differences in recognition of income and expenses for income tax and financial statement purposes.

The sources of the timing differences and the income tax effects of each were as follows:

	For the years ended December 31		
	1984	1983	1982
		$000	
Capital cost allowance claimed for income tax purposes in excess of depreciation and amortization	**$12,343**	$10,614	$35,332
Depletion and oil and gas exploration expenditures claimed for income tax purposes in excess of that recorded for accounting purposes	**9,312**	5,192	5,900
Other items deducted for income tax purposes in advance of accounting charges	**5,404**	3,560	14,490
Deferred income taxes	**$27,059**	$19,366	$55,722

14. Westcoast Petroleum Ltd.:

During the year ended December 31, 1982, the Company, through its wholly owned subsidiary, Westcoast Transmission Holdings Ltd., acquired an additional 42% of the shares of Westcoast Petroleum Ltd., increasing the Company's percentage ownership in that company to 100%.

15. Reconciliation of Generally Accepted Accounting Principles:

The Company prepares its accounts in accordance with accounting principles generally accepted in Canada, which parallel accounting principles generally accepted in the United States in most areas. The following reconciliations reflect the differences in these accounting principles where applicable, as required by the Securities and Exchange Commission and stock exchanges in the United States.

If accounting principles generally accepted in the United States were followed, the effect on net income would be as follows:

	For the years ended December 31		
	1984	1983	1982
		$000	
Net income*	**$60,376**	$48,444	$70,047
Adjustment for translation of long term debt**	**1,277**	(883)	(1,413)
Full cost accounting***	**1,100**	(8,500)	—
Adjusted net income	**62,753**	39,061	68,634
Provision for dividends on preferred shares	**3,098**	3,142	3,142
Adjusted net income applicable to common shares	**$59,655**	$35,919	$65,492
Common stock — weighted average and common stock equivalents (000)	**40,748**	40,743	40,664
Per common share — primary*	**$1.46**	$0.88	$1.61

* Accounting principles generally accepted in the United States require the extraordinary item described in Note 4 to be reported as a regular deduction from income.

** Effective January 1, 1984 all long term debt payable in United States funds is translated into Canadian dollars at exchange rates prevailing at the end of the fiscal periods. The resultant unrealized foreign exchange gains or losses are deferred and the portion not recoverable through cost of service is amortized on a straight-line basis over the life of each issue.

Prior to January 1, 1984, the Company translated long term debt payable in United States funds into Canadian dollars at exchange rates prevailing at the respective dates of issue.

Accounting principles generally accepted in the United States require that gains or losses resulting from translation of foreign debt at exchange rates prevailing at the end of the fiscal periods net of the portion recoverable through cost of service be included in the determination of income for the period.

*** If the Company accounted for depletion under procedures which apply in the United States, the depletion expense would be $1,100,000 lower than the Company's adopted method of depleting oil and gas properties for the year ended December 31, 1984 (higher for the year ended December 31, 1983 — $8,500,000). These reconciling items arose because under the United States Securities and Exchange Commissions's full cost accounting rules, cost centres must be established on a country-by-country basis.

Consolidated balance sheet items under accounting principles generally accepted in the United States, would be restated as follows:

	December 31	
	1984	1983
	$000	
Accumulated depreciation and depletion	**$617,961**	$546,522
Unrealized foreign exchange losses	**17,448**	13,955
Other deferred charges and investments	**49,100**	27,158
Common shareholders' equity:		
Unrealized loss on other long term investments	**5,562**	—
Retained earnings	**240,382**	224,082
Long term debt	**731,362**	776,641

16. Commitments and Contingencies:

Due to the size, complexity and nature of the Company's operations, a number of lawsuits are pending at any point in time in which the Company may be the plaintiff or defendant. In the opinion of management, the ultimate resolution of any current lawsuits would not have a material effect on the Company's consolidated financial position or results of operations.

17. Subsequent Event:

The Company reached an agreement with The Seagram Company Ltd. on February 27, 1985, to acquire from Seagram its Canadian oil and gas subsidiary, Texas Pacific Oil Canada Ltd., and related properties at a price of $121,500,000 Canadian, subject to closing adjustments.

SUPPLEMENTARY INFORMATION ON THE EFFECTS OF CHANGING PRICES (Unaudited)

For 1983 and subsequent years, the Canadian Institute of Chartered Accountants has recommended that companies over a certain size provide with their Annual Reports to Shareholders supplementary information with respect to the effects on asset values and net earnings resulting from changing prices. Such supplementary information is sometimes referred to as accounting for inflation.

Inflationary price increases pose serious problems for all companies including regulated utilities, but the effect on the latter is somewhat different from the effect on a non-regulated company. Notwithstanding this fact, the Canadian Institute of Chartered Accountants did not differentiate between different categories of companies in its recommendation. Accordingly, the Company shows below the supplementary information called for by the Institute, but the reader should be aware that, in the Company's view, such supplementary information is of marginal usefulness only, and may indeed be confusing to readers not wholly conversant with the method of operation and capital activities of a regulated company.

The primary purpose of the following unaudited supplementary information is to provide readers of the consolidated financial statements with information about the impact on the financial position and operating results of the Company due to changes in prices of specific goods and services employed in the Company's operations and of changes in the general purchasing power of the monetary unit in which transactions are measured. This unaudited supplementary information has been prepared in accordance with the guidelines established by the Canadian Institute of Chartered Accountants for Reporting the Effects of Changing Prices. The current cost financial data, however, should be used with caution as the prescribed rules and definitions are still experimental in nature and necessitate an element of subjectivity in the application of assumptions and estimates. Inflation-related information and price indices available may not specifically reflect the Company's operating environment and the costs of actual asset construction and replacement. The current cost financial data presented also does not include a valuation of the Company's organization, human resources, expertise and other

intangible assets including goodwill. The current cost information is prepared based on the most relevant and available sources of information to the Company selected on a reasonable basis in accordance with the above-mentioned guidelines. However, the disclosure of this current cost financial information should not be taken as an indication that the Company intends to replace the assets or that the costs represent the outlay that would be incurred if the assets were replaced.

Current cost amounts for the Company's plant, property and equipment and inventory are determined primarily by using engineering estimates, appropriate price indices or reliable market prices. Major components of the above are valued as follows:

Pipeline facilities are valued using estimates based on the current cost required for the construction of identical facilities.

Process plants and compressor stations are valued using estimates based on the assumption that the assets would be replaced with facilities of like capacity employing current technology.

Oil and gas properties are valued using appropriate specific price indices.

Current value for inventory was determined by using appropriate specific indices or reliable market prices.

As detailed under Note 1 of the Notes to the Consolidated Financial Statements, the Company's utility activities operate under a gas purchase agreement with the British Columbia Petroleum Corporation and are regulated by the National Energy Board. Under the agreement, the Company is reimbursed for its cost of service which includes the depreciation expenses of the Company's utility assets (at historical cost), inventory consumed and, a return on its utility rate base which includes the undepreciated portion of plant, property and equipment and inventory (at historical cost) related to its utility operations.

The National Energy Board does not recognize replacement cost for accounting purposes or rate determination. The Company's net income from utility operations is, therefore, directly related to its actual investment in utility assets (at historical cost) which would eventually be recovered through depreciation or consumption. The current worth of the amount of cash that can be recovered from the usage of these assets would approximate the amount recorded on a historical cost basis and should be used as the relevant measure for these assets.

Pacific Northern Gas Ltd., Foothills Pipe Lines (Yukon) Ltd., Foothills Pipe Lines (North B.C.) Ltd. and Westcoast Petroleum Ltd.'s pipeline operations are regulated by their respective regulatory bodies. While their regulatory methods and procedures might vary, the effect on the current cost of assets engaged in regulated operations of these companies will be like that of the Company. The current cost estimates on a consolidated basis are adjusted accordingly.

Schedule of Assets on the Current Cost Basis

	December 31			
	1984	**1983***	1984	1983
	Current Cost		Historical Cost	
	$000			
Plant, property and equipment — net	**$3,191,507**	**$3,300,773**	$1,384,386	$1,363,651
Inventory	**30,045**	**32,424**	24,461	23,044
	3,221,552	**3,333,197**	1,408,847	1,386,695
Adjustment of utility assets to net recoverable amount	**1,703,384**	**1,823,841**	—	—
	$1,518,168	**$1,509,356**	$1,408,847	$1,386,695
Net assets	**$ 595,610**	**$ 594,857**	$ 486,289	$ 472,196

* The 1983 comparative amounts have been restated for appropriate price indices and have been adjusted to reflect 1984 year-end dollars.

Consolidated Statements of Operations

	For the years ended December 31		
	1984	**1983***	1984
	Restated on the Current Cost Basis		As Reported in the Historical Statements
	$000		
Operating revenues	**$1,147,807**	**$1,176,151**	$1,147,807
Operating revenue deductions			
Cost of gas sold	**706,180**	**732,359**	706,180
Operation and maintenance	**112,244**	**113,856**	112,244
Depreciation and depletion	**83,019**	**79,875**	74,292
Taxes other than income taxes	**55,840**	**54,986**	55,840
	957,283	**981,076**	948,556
Operating income	**190,524**	**195,075**	199,251
Other income and income deductions	**79,658**	**87,522**	79,658
Income before undernoted items	**110,866**	**107,553**	119,593
Income taxes	**56,009**	**42,175**	56,009
Minority interest	**1,679**	**3,148**	3,208
Income before extraordinary item			
— on a current cost basis	**53,178**	**62,230**	
— on a historical cost basis			60,376
Extraordinary item, net of deferred income taxes	**—**	**17,369**	—
	53,178	**44,861**	60,376
Financing adjustment on current cost adjustments for depreciation and depletion	**1,013**	**841**	—
Net income	**54,191**	**45,702**	60,376
Provision for dividends on preferred shares	**3,098**	**3,279**	3,098
Net income applicable to common shares:			
Including extraordinary item			
— on a current cost basis	**$ 51,093**	**$ 42,423**	
— on a historical cost basis			$ 57,278
Before extraordinary item			
— on a current cost basis	**$ 51,093**	**$ 59,792**	
— on a historical cost basis			$ 57,278

* The 1983 comparative amounts have been adjusted to reflect (approximately) 1984 average dollars.

The current cost adjustment for depreciation and depletion resulted primarily from the current cost adjustments to the oil and gas properties and production facilities of Westcoast Petroleum Ltd. This adjustment to net income was, however, reduced by the financing adjustment which represented the portion of increased current cost depreciation and depletion expenses not attributable to the common shareholders as a result of debt financing.

The common shareholders' equity could also be interpreted to have gained in the portion of increases in current cost of plant, property and equipment and inventory that are financed by other means including debt and preferred shares. This financing adjustment based on changes in current cost of plant, property and equipment and inventory for the year ended December 31, 1984 amounted to $3,058,000 (for the year ended December 31, 1983 — $1,029,000). Additional gain in general purchasing power from having net monetary liabilities during the 1984 year in the amount of $11,373,000 (for the year ended December 31, 1983 — $13,676,000) can also be deemed to have occurred.

Other Supplementary Information

	For the years ended December 31	
	1984	1983*
	$000	
Increase in the current cost amounts of inventory and plant, property and equipment	**$ 5,835**	$ 8,095
Effect of general inflation	**15,182**	17,293
Excess of increase in general inflation over the increase in current cost amount	**$ 9,347**	$ 9,198

*The 1983 comparative amounts have been adjusted to reflect 1984 year-end dollars.

SUPPLEMENTARY INFORMATION ON OIL AND GAS ACTIVITIES (Unaudited)

The following supplementary information pertains to Westcoast Petroleum Ltd.'s oil and gas activities:

(a) Results from Oil and Gas Operations

	For the years ended December 31		
	1984	1983	1982
		$000	
Revenues, net of royalties	**$57,507**	$43,887	$43,133
Less:			
Production costs	**6,047**	5,014	4,608
Depreciation and depletion	**13,356**	9,660	9,103
Petroleum and Natural Gas Tax	**8,267**	6,057	6,319
Incremental Oil Revenue Tax	**—**	—	297
Alberta Royalty Tax Credit	**(2,000)**	(4,000)	(4,670)
	25,670	16,731	15,657
Operating income	**31,837**	27,156	27,476
Income taxes	**19,538**	13,087	13,164
Results from oil and gas operations	**$12,299**	$14,069	$14,312

(b) Capitalized Costs

	December 31	
	1984	1983
	$000	
Property acquisition, exploration and development costs	**$338,019**	$286,635
Accumulated depreciation and depletion	**(74,609)**	(61,254)
	$263,410	$225,381

(c) Costs Incurred

	For the years ended December 31		
	1984	1983	1982
		$000	
Property acquisition costs	**$12,473**	$ 5,318	$ 7,613
Exploration costs	**35,785**	32,810	24,160
Development costs	**24,518**	10,424	18,270
	72,776	48,552	50,043
Less: Petroleum incentive grants	**21,394**	17,201	13,065
	$51,382	$31,351	$36,978
Production expenses	**$ 6,047**	$ 5,014	$ 4,608
Depreciation and depletion	**13,356**	9,660	9,103

(d) Oil and Gas Reserves

	Crude Oil and Liquids			Natural Gas		
	December 31					
	1984	1983	1982	**1984**	1983	1982
	(thousands of barrels)			(billions of cubic feet)		
Proved (developed and undeveloped):						
Beginning of year	**10,520**	10,490	7,386	**396.7**	389.8	387.9
Revisions of previous estimates	**1,126**	364	564	**(.4)**	2.1	(12.8)
Discoveries and other additions	**1,734**	846	3,652	**10.5**	13.9	26.4
Production during the year	**(1,487)**	(1,180)	(1,112)	**(10.7)**	(9.1)	(11.7)
End of year	**11,893**	10,520	10,490	**396.1**	396.7	389.8
Proved developed:						
Beginning of year	**10,112**	10,490	7,386	**230.0**	219.2	206.5
End of year	**11,471**	10,112	10,490	**219.1**	230.0	219.2

The above reserves of crude oil and liquids, and natural gas are mainly located in Canada. The Company calculates reserves as net share to the Company but before deduction of royalties. This is the most meaningful comparison because in some cases royalty rates are revised with price changes and in some cases production is sold to government agencies at prices below fair market value and there is no royalty. Reserve estimates include only those reserves recoverable under existing economic and operating conditions and do not include reserves contained in untested zones or reserves available through enhanced recovery schemes where performance is not proven.

(e) Standardized Measure of Discounted Future Net Cash Flows and Changes Therein From Proved Reserves

The following information is provided as required by Statement No. 69 issued by the Financial Accounting Standards Board in the United States.

The Company cautions that the calculation of the discounted future net cash flows from proved oil and gas reserves does not represent fair market value of the reserves nor future cash flows from production of the reserves. The values do not include the value of unproved exploratory properties and the value of probable reserves.

Standardized Measure of Discounted Future Cash Flows From Proved Oil and Gas Reserves

	December 31		
	1984	1983	1982
		$000	
Estimated future cash inflows	**$1,078,021**	$1,114,122	$ 986,430
Less:			
Estimated future production costs	**129,068**	112,639	109,898
Estimated future development costs	**86,753**	75,351	61,373
Estimated future Petroleum and Natural Gas Tax	**152,808**	165,051	152,588
Estimated future income taxes	**372,105**	386,852	316,221
Estimated future net cash flows	**337,287**	374,229	346,350
Less discount at 10% per annum for estimated timing of future net cash flows	**151,820**	191,607	182,311
Discounted future net cash flows	**$ 185,467**	$ 182,622	$ 164,039

Changes in Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves

	For the years ended December 31		
	1984	1983	1982
		$000	
Revisions to reserves proved in prior years:			
Revisions in quantity	**$ 14,706**	$ 5,704	$ (2,066)
Changes in prices	**(21,220)**	30,712	31,862
Other	**(20,080)**	608	(18,490)
	(26,594)	37,024	11,306
Accretion of discount	**18,262**	16,404	12,007
Discoveries and extensions, net of related costs	**27,722**	16,182	61,019
Previously estimated development costs incurred during the year	**4,676**	5,792	5,782
Revenue, net of production costs and Petroleum and Natural Gas Tax from production	**(43,193)**	(32,816)	(32,206)
Net change in income taxes	**21,972**	(24,003)	(13,934)
Net change	**2,845**	18,583	43,974
Balance at beginning of year	**182,622**	164,039	120,065
Balance at end of year	**$185,467**	$182,622	$164,039

Estimated future cash inflows are based on estimated future production volumes of proved reserves at prices in effect on January 1st of the following year. Estimated future production costs include field operating costs which are based on year-end costs but exclude depreciation and depletion, corporate overhead and interest costs. Future development costs represent estimated expenditures to be incurred to complete the development and production of the proved reserves based on year-end costs. Estimated Petroleum and Gas Revenue Tax is computed based on rates and legislation in effect at each year-end. Future income tax expense has been computed by applying year-end statutory rates, to the future estimated taxable income adjusted for the tax basis of the oil and gas properties. The prescribed discount rate of 10 percent was used in arriving at discounted net cash flow.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Year Ended December 31, 1984

A substantial portion of the Company's operating cash flow was generated from its utility operations, which are subject to a gas purchase agreement with the British Columbia Petroleum Corporation and to National Energy Board regulation. Under the agreement, the Company recovers its operating expenses and a prescribed rate of return on its utility rate base assets. In 1984, consolidated funds generated from operations increased by approximately 4% to $165 million. This increase was primarily due to increased operating and other income offset by an increase in current income taxes payable.

The Company's funds generated from operating activities were used to finance the Company's capital projects, debt retirement and dividend payments.

The Company has lines of credit totalling $200 million with two Canadian chartered banks. These lines of credit allow the Company to borrow from the banks, issue bankers acceptances and support commercial paper issued by the Company. These lines of credit are subject to annual review by the chartered banks.

Operating revenues for 1984 increased from 1983 primarily due to an increase in the volumes of gas sold and an increase in natural gas and crude oil sales. Cost of gas sold increased during 1984 primarily due to the higher volumes of gas sold. Operating and maintenance expenses increased marginally over 1983.

Depreciation and depletion increased in 1984 principally due to an increase in natural gas and crude oil production. Taxes other than income taxes increased during 1984 primarily due to increased property taxes, Petroleum and Gas Revenue taxes and reduced royalty credits offset by reduced Federal Natural Gas taxes.

The net income of the Company was not affected by the variances relating to its utility operations because of the gas purchase agreement with the British Columbia Petroleum Corporation.

Allowance for funds used during construction decreased primarily due to the completion of Phase I of the Alaska Highway Natural Gas Pipeline Project in 1983.

Investment and other income increased mainly due to accrued allowances on accumulated deferred expenditures.

Interest on debt decreased slightly due to the reduced level of debt outstanding.

Other income deductions increased compared to 1983 primarily due to the amortization of unrealized foreign exchange losses as outlined in Note 1 of the Consolidated Financial Statements.

Income taxes in 1984 increased principally due to a reduced level of capital cost allowance claimed, resulting in a higher effective rate of income taxes.

Subsequent to year end, the Company reached an agreement with The Seagram Company Ltd. to acquire its oil and gas subsidiary, Texas Pacific Oil Canada Ltd., and related properties at a price of $121.5 million, subject to closing adjustments.

The Company anticipates no other unusual events or significant economic changes in the foreseeable future which will adversely affect income from continuing operations. As the Company's income from utility operations is based on the gas purchase agreement with the British Columbia Petroleum Corporation, changes in sales revenue from its utility operations due to any changes in the price of gas or volume fluctuations, as well as any effect of inflationary price changes on revenue and operating expenses, do not directly affect the Company's net income.

The effects on net income arising from the variances between accounting principles generally accepted in Canada and the United States are outlined in Note 15 of the Consolidated Financial Statements.

Year Ended December 31, 1983

A substantial portion of the Company's operating cash flow was generated from its utility operations.

In 1983, consolidated funds generated from operations decreased by approximately 14% to $158 million. This reduction is primarily due to approximately $11 million arising out of the Company's adoption of the income taxes currently payable basis of accounting for and collection of income taxes from its utility operations and an increase in current income taxes payable of approximately $14 million.

The Company's funds generated from operating activities together with the proceeds received from an issue of $60 million 12 ½% Debentures, 1993 Series, were used to finance the Company's capital projects, debt retirement and dividend payments.

Foothills Pipe Lines (Yukon) Ltd. added to its long term bank indebtedness by approximately $49 million during 1983 in order to help finance the completion of the construction on the Eastern Leg of Phase I of the Alaska Highway Natural Gas Pipeline Project. Twelve million dollars of this additional financing together with $167 million from earlier financings were reflected in the Company's financial statements by way of proportionate consolidation. The Company will continue to contribute its share of the equity capital requirements for the project. The Company had no other material commitments on December 31, 1983.

The Company has lines of credit totalling $200 million with two Canadian chartered banks. These lines of credit allow the Company to borrow from the banks, issue bankers acceptances and support commercial paper issued by the Company. These lines of credit are subject to annual review by the chartered banks.

Operating revenues for 1983 decreased from 1982 due to a 4% reduction in volumes of gas sold and a 2% decline in the average price of gas sold, offset by a full year of operation of both the Western Leg (October 1981) and the Eastern Leg (September 1982) of Phase I of the Alaska Highway Natural Gas Pipeline Project. Cost of gas sold declined during 1983 primarily due to the lower volumes of gas sold. Operating and maintenance expenses increased over 1982 primarily due to higher operating and maintenance expenses pertaining to the Eastern Leg of Phase I of the Alaska Highway Natural Gas Pipeline Project.

Depreciation and depletion increased in 1983 primarily due to an increase in fixed assets. Taxes other than income taxes decreased during 1983 primarily due to reduced Federal Natural Gas taxes offset by increased property taxes.

The net income of the Company was not affected by the variances relating to its utility operations because of the gas purchase agreement with the British Columbia Petroleum Corporation.

Allowance for funds used during construction decreased primarily due to the cessation of recording an allowance for Phase II effective January 1, 1983 and completion of the Eastern Leg of Phase I of the Alaska Highway Natural Gas Pipeline Project. The Phase II recovery increased in 1983 which reflected a full year's recovery versus only four months recovery in 1982.

Investment and other income decreased due to reduced gains on purchases of debt in advance of repayment requirements.

Interest on debt decreased slightly due to reduced net borrowings by Foothills Pipe Lines (Yukon) Ltd. offset by increased borrowings by the Company.

Other income deductions decreased compared to 1982 due to reduced write-offs of costs related to certain feasibility studies on projects not being proceeded with at this time.

Income taxes in 1983 decreased primarily as a result of the Company's adoption of the income taxes currently payable basis for its pipeline operations.

The extraordinary item represents a write-off of certain costs relating to Phase II of the Alaska Highway Natural Gas Pipeline Project and is detailed in Note 4 of the Consolidated Financial Statements.

The Company anticipates no unusual events or significant economic changes in the foreseeable future which will adversely affect income from continuing operations. As the Company's income from utility operations is based on the gas purchase agreement with the British Columbia Petroleum Corporation, changes in sales revenue from its utility operations due to any changes in the price of gas or volume fluctuations, as well as any effect of inflationary price changes on revenue and operating expenses, do not directly affect the Company's net income.

Year Ended December 31, 1982

A substantial portion of the Company's operating cash flow was generated from its utility operations. In 1982, consolidated funds generated from operations increased slightly over 1981 by approximately 6% to $183 million. This increase was primarily due to increased funds generated from operations from Phase I of the Alaska Highway Natural Gas Pipeline Project and from Westcoast Petroleum Ltd.

The Company's funds generated from operations together with the proceeds received from an issue of $50 million 16 ¾% Debentures, 1987 Series, were used to finance the Company's capital projects, the acquisition of additional shares in Westcoast Petroleum Ltd., which is now fully owned, the funding requirements for the Alaska Highway Natural Gas Pipeline Project and in meeting the Company's debt retirement and dividend payments.

During 1982, Pacific Northern Gas Ltd. issued $40 million in long term debt. These proceeds were used to finance its 1982 capital program and to repay bank borrowings of approximately $32 million.

Foothills Pipe Lines (Yukon) Ltd. added to its long term bank indebtedness by approximately $257 million during 1982 in order to help finance the completion of the construction on the Eastern Leg of Phase I of the Alaska Highway Natural Gas Pipeline Project. Seventy-four million dollars of this additional financing together with $93 million from earlier financings were reflected in the Company's financial statements by way of proportionate consolidation.

The Company has lines of credit totalling $200 million with two Canadian chartered banks. These lines of credit allow the Company to borrow from the banks, issue bankers acceptances and support commercial paper issued by the Company. These lines of credit are subject to annual review by the chartered banks.

Operating revenues for 1982 decreased from 1981 due to a 10% reduction in volumes of gas sold and a 3% decline in the average price of gas sold, offset by increased revenues from Westcoast Petroleum Ltd. and the commencement of operation of both the Western Leg (October 1981) and the Eastern Leg (September 1982) of Phase I of the Alaska Highway Natural Gas Pipeline Project. Cost of gas sold declined during 1982 due to the lower volumes of gas sold. Operating and maintenance expenses declined over 1982 primarily due to a higher recovery in 1981 of operating and maintenance expenses previously deferred.

Depreciation and depletion increased in 1982 primarily due to the commencement of depreciation for the fixed assets of Phase I of the Alaska Highway Natural Gas Pipeline Project. Taxes other than income taxes decreased during 1982 primarily due to the reduction of the Federal Natural Gas Tax rate for export sales to zero percent in September 1981. This reduction was partially offset by increased property taxes.

The net income of the Company was not affected by the variances relating to the gas sales volumes and prices described above because of the gas purchase agreement with the British Columbia Petroleum Corporation.

The Phase II recovery pertaining to certain costs of the Alaska Highway Natural Gas Pipeline commenced in September 1982.

Investment and other income decreased due to reduced levels of temporary cash investments during 1982.

Interest on debt for 1982 increased due to increased borrowings by the Company, Pacific Northern Gas Ltd. and Foothills Pipe Lines (Yukon) Ltd.

Other income deductions for 1982 increased due to a $1.6 million write-off (after-tax) of costs related to certain feasibility studies.

SEGMENTED STATEMENTS OF OPERATIONS (Unaudited)

FOR THE YEARS ENDED DECEMBER 31

	Westcoast Transmission Company Limited	Westcoast Petroleum Ltd.	Foothills Pipe Lines (Yukon) Ltd.	Consolidation Adjustments And Other Subsidiaries	Consolidated
			$000		
1984					
Operating revenues	**$ 996,800**	**$65,364**	**$50,584**	**$35,059**	**$1,147,807**
Operating revenue deductions	**885,402**	**32,745**	**14,264**	**16,145**	**948,556**
Operating income	**111,398**	**32,619**	**36,320**	**18,914**	**199,251**
Other income	**10,752**	**262**	**3,906**	**(97)**	**14,823**
	122,150	**32,881**	**40,226**	**18,817**	**214,074**
Income deductions	**62,822**	**3,472**	**19,951**	**8,236**	**94,481**
Income before undernoted items	**59,328**	**29,409**	**20,275**	**10,581**	**119,593**
Income taxes	**23,421**	**18,714**	**8,258**	**5,616**	**56,009**
Minority interest	**—**	**—**	**—**	**3,208**	**3,208**
Net income	**$ 35,907**	**$10,695**	**$12,017**	**$ 1,757**	**$ 60,376**
1983					
Operating revenues	$ 985,420	$ 52,080	$ 49,157	$ 40,448	$ 1,127,105
Operating revenue deductions	875,003	23,854	14,006	21,402	934,265
Operating income	110,417	28,226	35,151	19,046	192,840
Other income	5,193	19	5,339	50	10,601
	115,610	28,245	40,490	19,096	203,441
Income deductions	62,114	3,147	20,662	8,550	94,473
Income before undernoted items	53,496	25,098	19,828	10,546	108,968
Income taxes	14,979	12,346	8,073	5,018	40,416
Minority interest	—	—	—	3,463	3,463
	38,517	12,752	11,755	2,065	65,089
Extraordinary item	—	—	16,645	—	16,645
Net income	$ 38,517	$ 12,752	$ (4,890)	$ 2,065	$ 48,444
1982					
Operating revenues	$ 1,039,187	$ 52,630	$ 27,457	$ 37,677	$ 1,156,951
Operating revenue deductions	904,095	24,755	9,220	22,787	960,857
Operating income	135,092	27,875	18,237	14,890	196,094
Other income	7,543	50	27,574	2,888	38,055
	142,635	27,925	45,811	17,778	234,149
Income deductions	60,957	3,970	23,481	8,341	96,749
Income before undernoted items	81,678	23,955	22,330	9,437	137,400
Income taxes	41,672	12,220	4,184	4,460	62,536
Minority interest	—	1,722	—	3,095	4,817
Net income	$ 40,006	$ 10,013	$ 18,146	$ 1,882	$ 70,047

SEGMENTED STATEMENTS OF CHANGES IN FINANCIAL POSITION (Unaudited)

FOR THE YEARS ENDED DECEMBER 31

	Westcoast Transmission Company Limited	Westcoast Petroleum Ltd.	Foothills Pipe Lines (Yukon) Ltd.	Consolidation Adjustments And Other Subsidiaries	Consolidated
			$000		
1984					
Operating activities	**$101,736**	**$ 52,322**	**$ 20,420**	**$ (2,141)**	**$172,337**
Financing activities	**(19,776)**	**(14,177)**	**(13,509)**	**(3,847)**	**(51,309)**
Investment activities	**(69,717)**	**(52,391)**	**(218)**	**(655)**	**(122,981)**
Dividends paid	**(45,482)**	**—**	**(7,742)**	**6,060**	**(47,164)**
Increase (decrease) in cash position during the year	**$(33,239)**	**$(14,246)**	**$ (1,049)**	**$ (583)**	**$(49,117)**
1983					
Operating activities	$ 122,445	$ 23,958	$ 28,121	$ (6,503)	$ 168,021
Financing activities	25,271	11,527	(3,965)	(762)	32,071
Investment activities	(25,757)	(30,246)	(11,239)	(4,967)	(72,209)
Dividends paid	(45,494)	—	(15,406)	13,813	(47,087)
Increase (decrease) in cash position during the year	$ 76,465	$ 5,239	$ (2,489)	$ 1,581	$ 80,796
1982					
Operating activities	$ 132,797	$ 32,913	$ 22,411	$ (4,064)	$ 184,057
Financing activities	23,513	(558)	91,434	(4,564)	109,825
Investment activities	(185,022)	(33,950)	(94,614)	8,013	(305,573)
Dividends paid	(45,422)	—	(3,111)	856	(47,677)
Increase (decrease) in cash position during the year	$ (74,134)	$ (1,595)	$ 16,120	$ 241	$ (59,368)

CONSOLIDATED QUARTERLY RESULTS (Unaudited)

FOR THE THREE MONTHS ENDED

	March 31	June 30	Sept. 30	Dec. 31
		$000		
1984				
Operating revenues	**$398,222**	**$227,753**	**$185,436**	**$336,396**
Operating revenue deductions	**345,459**	**178,688**	**137,953**	**286,456**
Operating income	**52,763**	**49,065**	**47,483**	**49,940**
Other	**20,461**	**21,142**	**21,164**	**20,099**
Income before undernoted items	**32,302**	**27,923**	**26,319**	**29,841**
Income taxes	**16,789**	**14,291**	**10,949**	**13,980**
Net income	**15,513**	**13,632**	**15,370**	**15,861**
Provision for dividends on preferred shares	**786**	**785**	**780**	**747**
Net income applicable to common shares	**$ 14,727**	**$ 12,847**	**$ 14,590**	**$ 15,114**
Per common share — basic	**$.36**	**$.32**	**$.36**	**$.37**
1983				
Operating revenues	$ 331,930	$ 178,048	$ 193,231	$ 423,896
Operating revenue deductions	282,240	130,650	145,609	375,766
Operating income	49,690	47,398	47,622	48,130
Other	21,833	22,345	22,157	21,000
Income before undernoted items	27,857	25,053	25,465	27,130
Income taxes	10,402	9,333	10,007	10,674
Income before extraordinary item	17,455	15,720	15,458	16,456
Extraordinary item	—	—	—	16,645
Net income	17,455	15,720	15,458	(189)
Provision for dividends on preferred shares	786	785	786	785
Net income applicable to common shares:				
Including extraordinary item	$ 16,669	$ 14,935	$ 14,672	$ (974)
Before extraordinary item	$ 16,669	$ 14,935	$ 14,672	$ 15,671
Per common share — basic:				
Including extraordinary item	$.41	$.37	$.36	$(.03)
Before extraordinary item	$.41	$.37	$.36	$.38

WESTCOAST TRANSMISSION COMPANY LIMITED TEN-YEAR REVIEW

FOR THE YEARS ENDED DECEMBER 31 (Dollar amounts are in thousands, except per share figures)

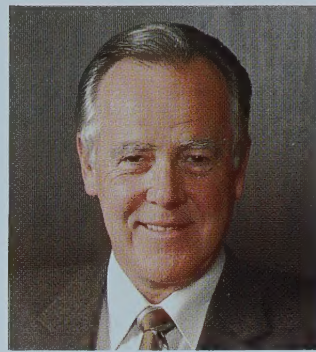
FINANCIAL				
Operations:	**1984**	1983	1982	1981
Operating revenues	**$1,147,807**	$1,127,105	$1,156,951	$1,270,330
Operating revenue deductions	**948,556**	934,265	960,857	1,104,543
Operating income	**199,251**	192,840	196,094	165,787
Other income and deductions	**138,875**	127,751	126,047	100,361
Net income*	**60,376**	65,089	70,047	65,426
Provision for dividends on preferred shares	**3,098**	3,142	3,142	3,142
Net income applicable to common shares*	**$ 57,278**	$ 61,947	$ 66,905	$ 62,284
Dividends on common shares	**$ 42,364**	$ 42,352	$ 42,280	$ 36,578
Cash flow from operations	**165,167**	158,360	183,268	172,699
Per Common Share:				
Net income — basic*	**$1.41**	$1.52	$1.65	$1.59
Dividends	**1.04**	1.04	1.04	.92
Dividend payout ratio*	**74%**	68%	63%	58%
Cash flow from operations	**4.05**	3.89	4.51	4.40
Assets:				
Plant, property and equipment	**$1,994,947**	$1,901,673	$1,833,355	$1,602,493
Accumulated depreciation and depletion	**610,561**	538,022	469,467	410,143
Net plant, property and equipment	**1,384,386**	1,363,651	1,363,888	1,192,350
Current assets	**205,756**	241,005	208,748	186,631
Deferred charges and other investments	**161,639**	114,396	135,277	101,128
Total assets	**$1,751,781**	$1,719,052	$1,707,913	$1,480,109
Capitalization:				
Long term debt	**$ 707,677**	$ 732,421	$ 701,618	$ 595,880
Preferred shareholders' equity	**34,210**	36,966	36,966	36,966
Common shareholders' equity	**486,289**	472,196	470,182	445,687
	1,228,176	1,241,583	1,208,766	1,078,533
Other liabilities:				
Deferred income taxes	**243,123**	215,445	202,270	147,829
Current liabilities	**256,866**	240,072	276,507	188,069
Minority interest in subsidiary companies	**23,616**	21,952	20,370	65,678
Total equity and liabilities	**$1,751,781**	$1,719,052	$1,707,913	$1,480,109
Rate Base and Return:				
Average utility rate base	**$ 694,586**	$ 739,344	$ 747,803	$ 742,780
Average return on utility rate base	**12.0%**	12.0%	11.9%	11.4%
Average return on equity in utility rate base	**14.6%**	14.7%	15.2%	15.4%
Capitalization Ratios:				
Long term debt	**57.6%**	59.0%	58.0%	55.3%
Preferred shareholders' equity	**2.8%**	3.0%	3.1%	3.4%
Common shareholders' equity	**39.6%**	38.0%	38.9%	41.3%
— per common share	**$11.94**	$11.59	$11.56	$10.97
Return on average common shareholders' equity*	**12.0%**	13.1%	14.6%	15.1%
STATISTICAL				
Mainline Operations:				
Total gas sales (10^3m^3)	**7 233 907**	6 782 851	7 057 348	7 886 955
Average daily sales (10^3m^3)	**19 765**	18 583	19 335	21 608
Peak day sales (10^3m^3)	**42 941**	43 481	40 696	40 016
Systems sales capacity (10^3m^3 per day)	**42 548**	42 548	41 053	41 053
Transmission pipelines (kilometres)	**2 331**	2 331	2 331	2 331
Gathering pipelines (kilometres)	**2 104**	2 104	2 104	2 104
Compressors (kilowatts)	**356 757**	356 757	350 493	337 966
Oil and Gas:				
Property acquisition, exploration and development costs after incentives	**$ 51,382**	$ 31,351	$ 36,978	$ 27,851
Production — Crude oil and liquids (Mbbls)	**1,487**	1,180	1,112	1,048
— Natural gas (Bcf)	**11**	9	12	11
Proved reserves at year end — Crude oil and liquids (Mbbls)	**11,893**	10,520	10,490	7,386
— Natural gas (Bcf)	**396**	397	390	388
Common shares:				
Shares outstanding at year end	**40,741,498**	40,731,498	40,689,998	40,614,998
Toronto Stock Exchange price ranges — high	**$15⅝**	$15¾	$15½	$15⅜
— low	**$13**	$13¼	$11¾	$10¾
Number of common shareholders	**9,905**	11,745	12,581	13,396
Employees:				
Westcoast—employee person years	**844**	833	870	825
Consolidated—employees at year end	**1,082**	1,037	1,057	1,031

*Before 1983 extraordinary item of $16,645,000 ($ .41 per share)

1980	1979	1978	1977	1976	1975
$1,217,600	$1,098,649	$ 843,902	$ 780,164	$ 579,276	$ 416,677
1,070,652	999,326	764,565	705,186	511,346	362,764
146,948	99,323	79,337	74,978	67,930	53,913
97,913	49,453	32,978	31,416	28,161	20,894
49,035	49,870	46,359	43,562	39,769	33,019
3,165	3,399	3,400	3,400	3,400	3,400
$ 45,870	$ 46,471	$ 42,959	$ 40,162	$ 36,369	$ 29,619
$ 28,494	$ 28,122	$ 23,652	$ 21,674	$ 19,798	$ 17,654
154,931	104,977	84,594	81,460	75,125	54,184
$1.29	$1.33	$1.25	$1.21	$1.12	$ .99
.80	.80	.69	.65	.61	.60
62%	60%	55%	54%	55%	61%
4.36	3.00	2.46	2.45	2.32	1.81
$1,368,720	$1,223,059	$1,070,259	$ 932,821	$ 882,394	$ 736,752
358,235	318,127	284,143	254,218	227,669	167,632
1,010,485	904,932	786,116	678,603	654,725	569,120
212,360	182,042	140,549	125,383	98,458	61,888
82,905	61,339	37,116	20,325	14,967	44,181
$1,305,750	$1,148,313	$ 963,781	$ 824,311	$ 768,150	$ 675,189
$ 525,822	$ 417,734	$ 376,393	$ 310,456	$ 317,275	$ 308,037
36,966	39,604	40,000	40,000	40,000	40,000
377,028	352,353	327,089	297,509	269,183	247,670
939,816	809,691	743,482	647,965	626,458	595,707
90,274	41,363	25,697	20,012	15,441	—
212,930	239,179	141,663	106,296	75,298	66,364
62,730	58,080	52,939	50,038	50,953	13,118
$1,305,750	$1,148,313	$ 963,781	$ 824,311	$ 768,150	$ 675,189
$ 706,156	$ 607,821	$ 546,579	$ 529,758	$ 516,738	$ 499,092
10.9%	10.9%	11.0%	11.0%	10.5%	10.0%
13.0%	14.0%	14.0%	14.5%	14.4%	14.2%
56.0%	51.6%	50.6%	47.9%	50.6%	51.7%
3.9%	4.9%	5.4%	6.2%	6.4%	6.7%
40.1%	43.5%	44.0%	45.9%	43.0%	41.6%
$10.42	$ 9.95	$ 9.44	$ 8.84	$ 8.26	$ 7.72
12.6%	13.7%	13.8%	14.2%	14.1%	13.5%
8 644 756	10 859 747	9 757 496	10 467 364	9 791 490	10 005 393
23 620	29 753	26 733	28 678	26 753	27 412
39 437	39 829	38 774	37 395	32 972	33 266
41 053	37 704	36 996	36 996	36 996	36 996
2 331	2 294	2 253	2 253	2 214	2 214
2 104	1 968	1 935	1 593	1 548	1 395
337 966	337 966	337 966	333 492	333 492	333 492
$ 32,624	$ 27,092	$ 28,110	$ 15,837	$ 15,975	$ 6,808
878	865	831	665	317	307
12	14	11	10	10	11
7,311	7,665	8,462	9,752	8,855	8,810
361	345	344	324	387	443
36,189,581	35,407,614	34,662,834	33,651,045	32,604,651	32,089,857
$15¾	$16⅜	$12¾	$11¾	$ 9⅜	$ 7¾
$12	$11⅛	$10⅜	$ 8⅞	$ 7½	$ 6⅛
13,278	12,660	12,496	9,870	9,677	9,768
770	714	634	568	522	531
971	921	808	743	673	674

Directors

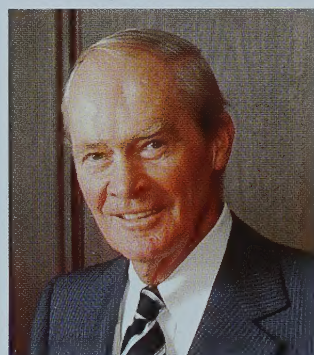
‡ * **Wilbert H. Hopper**
Chairman and Chief Executive Officer
Petro-Canada
A Crown energy corporation
Calgary, Alberta



* **John Anderson**
President and Chief Executive Officer
Westcoast Transmission Company Limited
Vancouver, British Columbia

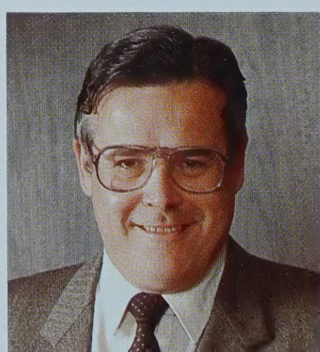
† ‡ **James S. Byrn**
Chairman
Gulf Group Canada Limited
An investment holding company
Vancouver, British Columbia

† * **David L. Helliwell**
President
Marin Investments Ltd.
An investment holding company
Vancouver, British Columbia

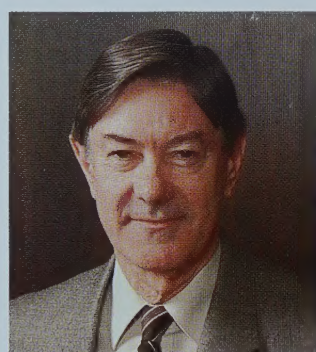


J. Taylor Kennedy
Retired
Montreal, Quebec

Edward M. Lakusta
President and Chief Operating Officer
Petro-Canada
A Crown energy corporation
Calgary, Alberta



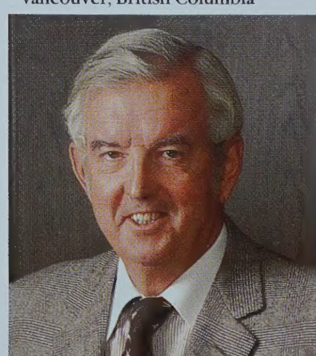
† **David P. O'Brien**
Senior Vice President,
Finance and Planning
Petro-Canada
A Crown energy corporation
Calgary, Alberta



* **Derek H. Parkinson**
Senior Vice President
and Chief Financial Officer
Westcoast Transmission Company Limited
Vancouver, British Columbia

Edwin C. Phillips
Consultant
Vancouver, British Columbia

* **Arthur H. Willms**
Senior Vice President
Westcoast Transmission Company Limited
Vancouver, British Columbia



‡ **Charles N. W. Woodward**
Chairman of the Board
and Chief Executive Officer
Woodward Stores Limited
Retail merchants
Vancouver, British Columbia

Frank M. McMahon
Chairman Emeritus of the Board
Hamilton, Bermuda

* Executive Committee
† Audit Committee
‡ Compensation Committee

Corporate Information

Officers

Wilbert H. Hopper
Chairman

John Anderson
President and Chief Executive Officer

Derek H. Parkinson
Senior Vice President and Chief Financial Officer

Arthur H. Willms
Senior Vice President

William B. Caswell
Vice President, Process

Alton J. Green
Vice President, Administration

J. Edward Johnson
Vice President, Operations

John A. Kavanagh
Vice President, Engineering

Gordon W. Lade
Vice President, Secretary and General Counsel

Ronald B. Maas
Vice President, Marketing and Regulatory Affairs

Michael E. J. Phelps
Vice President, Strategic Planning

Wayne N. Collett
Treasurer

John H. Podmore
Comptroller

Philip G. Griffin
Associate General Counsel and Assistant Secretary

Joachim W. Castelsky
Assistant Treasurer

Registrars

Common Shares
THE CANADA TRUST COMPANY —
Vancouver, B.C., Calgary, Alta., Regina, Sask., Toronto, Ont., Montreal, P.Q.
REGISTRAR AND TRANSFER COMPANY —
Cranford, New Jersey

Preferred Shares
CANADA PERMANENT TRUST COMPANY —
Vancouver, B.C., Calgary, Alta., Regina, Sask., Winnipeg, Man., Toronto, Ont., Montreal, P.Q.

Bonds
MONTREAL TRUST COMPANY —
Vancouver, B.C., Calgary, Alta., Toronto, Ont., Montreal, P.Q.

Debentures
7½% First Series Debentures
CANADA PERMANENT TRUST COMPANY —
Vancouver, B.C., Calgary, Alta., Regina, Sask., Winnipeg, Man., Toronto, Ont., Montreal, P.Q.

Other Series Debentures
THE CANADA TRUST COMPANY —
Vancouver, B.C., Calgary, Alta., Regina, Sask., Winnipeg, Man., Toronto, Ont., Montreal, P.Q.

Subordinate Debentures
CITIBANK, N.A. — New York, N.Y.
MONTREAL TRUST COMPANY (co-registrar) —
Vancouver, B.C., Calgary, Alta., Toronto, Ont., Montreal, P.Q.

Transfer Agents

Common Shares
MONTREAL TRUST COMPANY —
Vancouver, B.C., Calgary, Alta., Regina, Sask., Toronto, Ont., Montreal,P.Q.
REGISTRAR AND TRANSFER COMPANY —
Cranford, New Jersey

Preferred Shares
THE CANADA TRUST COMPANY —
Vancouver, B.C., Calgary, Alta., Regina, Sask., Winnipeg, Man., Toronto, Ont., Montreal, P.Q.

Auditors
Clarkson Gordon
P.O. Box 10101, Pacific Centre
700 West Georgia Street, Vancouver, B.C.

Stock Exchanges
Listed on the Toronto, Montreal and Vancouver Stock Exchanges in Canada and the New York and Pacific Stock Exchanges in the United States.

Stock Symbol — WTC

Offices
1333 West Georgia Street, Vancouver, B.C. V6E 3K9
140 - 4th Avenue S.W., Calgary, Alberta T2P 3N3

Stock Market Price Ranges
(Common Shares)

	New York		Toronto	
	Low	**High**	**Low**	**High**
	(United States Dollars)		(Canadian Dollars)	
January-March 1983	11	12½	13⅜	15¼
April-June 1983	10⅞	12⅛	13½	15
July-September 1983	10⅝	12½	13¼	15⅜
October-December 1983	12	12½	14⅞	15¾
January-March 1984	11⅜	12⅝	14⅜	15⅝
April-June 1984	10¾	11¾	13⅞	14¾
July-September 1984	9⅞	10⅞	13⅛	14⅜
October-December 1984	9⅞	11½	13	15¼

Valuation Day
The Valuation Day price of the Company's common shares adjusted for the three-for-one stock split of May 12, 1978 was $8.63.

Earnings and Dividends Paid*

(Common Shares)	1984 Earnings	1984 Dividends	1983 Earnings	1983 Dividends
January-March	**$ .36**	**$ .26**	$ .41	$ .26
April-June	**.32**	**.26**	.37	.26
July-September	**.36**	**.26**	.36	.26
October-December	**.37**	**.26**	.38**	.26
	$1.41	**$1.04**	$1.52**	$1.04

*A resident of the United States receiving investment income generated in Canada is subject to withholding tax provisions under the Canadian Income Tax Act and the Canada-United States Tax Convention. With certain exceptions, dividends paid by the Company are subject to a withholding tax at a rate of 15%.
**Before extraordinary item of $ .41.

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1333 West Georgia Street, Vancouver, British Columbia V6E 3K9